

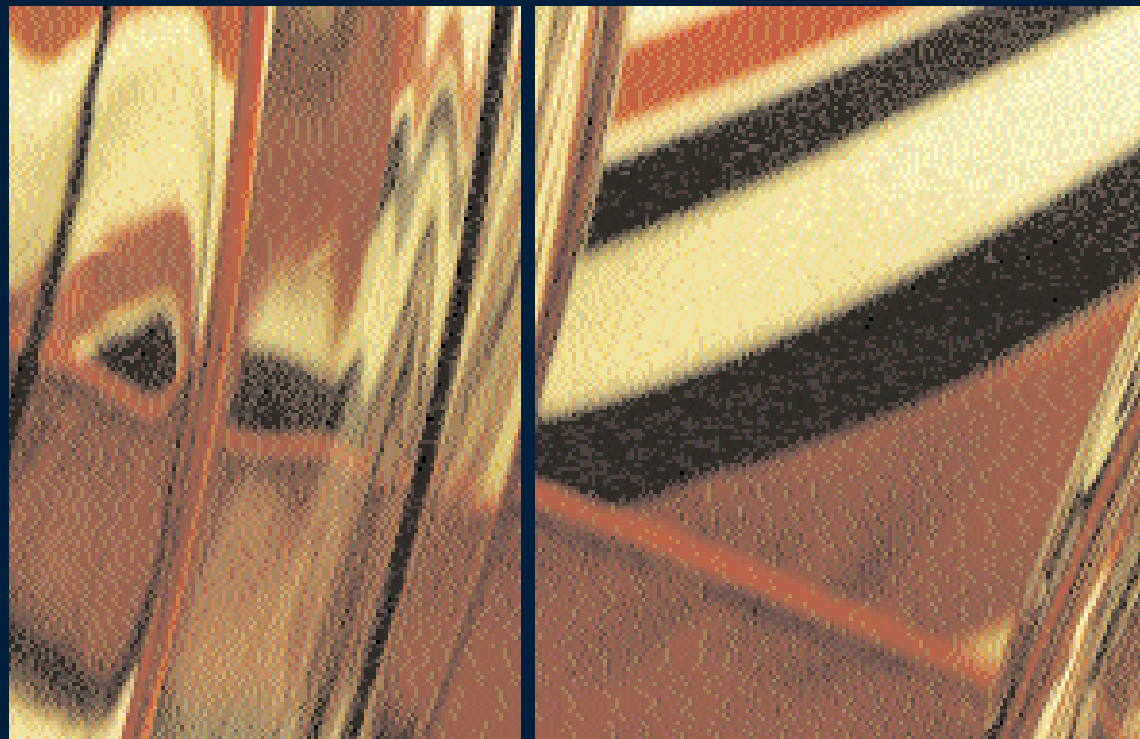
CORPORATE GOVERNANCE REPORT  
INDITEX 2003

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*Translation of a report originally issued in Spanish and prepared in accordance with Spanish regulations.  
In the event of a discrepancy, the Spanish-language version prevails.*

## **ANNUAL CORPORATE GOVERNANCE REPORT OF INDUSTRIA DE DISEÑO TEXTIL, S.A.**

In this Annual Corporate Governance Report, the Board of Directors of INDUSTRIA DE DISEÑO TEXTIL, S.A. (INDITEX, S.A.) has included all the relevant information corresponding to fiscal year 2003, which commenced on 1 February 2003 and closed on 31 January 2004, excepting those other cases in which other dates of reference are specifically mentioned.

In that year, significant regulatory changes occurred in the areas related to the corporate governance of listed companies, as a result of increased awareness about the importance of introducing ever greater levels of transparency in order for the financial markets to be able to function correctly, which means that all information that is relevant for the investors is transmitted to the market, that the information thus transmitted must be accurate and truthful, and that it be transmitted symmetrically, fairly and in a timely manner.

In Spain, Law 26/2003 of 17 July (hereinafter, the "Transparency Law"), which modified the Spanish Stock Exchange Act and the Revised Text of the Spanish Corporation Law with the objective of reinforcing the transparency of listed companies, transformed into laws and regulations the series of reflections on the principles and practices that should govern the corporate governance of listed companies that were contained in the Report by the Olivencia Commission and, more recently, in the Report of the Special Commission for the Promotion of Transparency and Security in Financial Markets and Listed Companies (hereinafter, the "Aldama Report"), giving regulatory support to the conclusions and recommendations contained therein as regards the promotion of transparency.

More recently, Ministerial Order ECO/3722/2003 of 26 December, which was established in development of the aforementioned Law, and —above all— Circular 1/2004 dated 17 March from the Comisión Nacional del Mercado de Valores (Spanish Stock Exchange Commission, hereinafter the CNMV), on annual corporate governance reporting of listed companies and other entities that issue securities admitted to trading on official secondary securities markets and other instruments for information of listed companies, have completed the regulation of the contents and structure of annual corporate governance reports, establishing a model for such purpose, in order to comply with the transparency requirements arising out of the Transparency Law.

This Annual Corporate Governance Report is subject to publication as a relevant fact and may be consulted through our corporate web page: [www.inditex.com](http://www.inditex.com).

The rules governing the corporate governance of INDITEX are established in its Articles of Association, Board of Directors' Regulations and Regulations governing the General Meeting of Shareholders, in its Internal Regulations of Conduct Regarding Transactions in Securities, the Code of Conduct of the INDITEX group and the Regulations of the Social Advisory Board, as is explained in more detail below:

**Articles of Association:** These were approved by the General Meeting of Shareholders in July 2000. The General Meeting held in April 2001 introduced an amendment consisting of a reduction in the number of shares required to attend the General Meeting. The amendments approved by the General Meeting held on 18 July 2003 are subjected to detailed analysis throughout this report.

**Board of Directors' Regulations:** These were approved by the Board of Directors in July 2000. Their purpose is to determine the principles of operation of the Board, the basic rules for its organisation and working and the rules governing the conduct of its members and includes, among other matters, rules relating to the appointment and removal of directors, their rights and duties and the relations of the Board with the shareholders, with the markets and with the external auditors, all this with the aim of achieving the highest possible degree of efficiency. The Board of Directors, in its meeting on 20 March 2003, approved a new revised text of the Board of Directors' Regulations, in order to adapt them to the new obligations introduced by Spanish Law 44/2002, of 22 November, on Measures for Reform of the Financial System (hereinafter, the "Financial Law"), and to the recommendations contained in the Aldama Report.

**Regulations of the General Meeting of Shareholders:** This text was approved at the General Meeting held on 18 July 2003. Its aim is to regulate the working of the General Meeting as to calling of meetings, preparation, information, attendance, development and exercise of voting rights, and to inform the shareholders of their rights and duties relating to this.

**Internal Regulations of Conduct regarding Transactions in Securities (hereinafter, the "Internal Regulations of Conduct"):** Approved by the Board of Directors in July 2000, this document contains the rules governing the confidentiality of relevant information, transactions involving securities of INDITEX and its group of companies by the persons included in its scope, its treasury stock policy and communication of relevant facts. In its meetings on 20 March and 11 December 2003, the Board of Directors approved revised texts of the Internal Regulations of Conduct, in order to adapt them firstly to the new obligations introduced by the Financial Law, and secondly to the recommendations contained in the Aldama Report, redefining several concepts and strengthening control over those transactions that could be carried out at some point in the future by Affected Persons with securities of the company, amongst other modifications.

**Code of Conduct of the INDITEX group:** Approved by the Board of Directors in February 2001, this Code is defined as an ethical commitment that includes key principles and standards for the appropriate development of the relations between INDITEX and its principal stakeholders: shareholders, employees, partners, suppliers, customers and Society. It includes an Internal Code of Conduct and a Code of Conduct for External Manufacturers and Workshops to guarantee the suitable introduction and management of the principles contained in the Human Rights Declarations and the Conventions of the United Nations and those of the International Labour Organisation, principally.

The full text of all the aforementioned documents is available on the corporate web page ([www.inditex.com](http://www.inditex.com)).

**Regulations of the Social Advisory Board:** The Social Advisory Board is the advisory body of INDITEX with regard to Corporate Social Responsibility. In December 2002, the Board of Directors authorised its creation and approved its Regulations, which determine the principles of action, the basic rules governing its organisation and working and the rules of conduct of its members.

## A. OWNERSHIP STRUCTURE

### A.1. The share capital of the company:

DATE OF LAST MODIFICATION	SHARE CAPITAL (E)	NUMBER OF SHARES
20-07-2000: Resolution passed by General Meeting of Shareholders	93,499,560 euros	623,330,400 shares

All the shares are of the same class and series, represented by the book-entry method and are fully paid-up and subscribed.

INDITEX has been listed on the Spanish Stock Markets since 23 May 2001 and has been part of the selective IBEX35 since July 2001. In addition, it has formed part of the Eurostock 600 since September 2001, of the selective Morgan Stanley Capital International index since November 2001, of the Dow Jones Sustainability Indexes since September 2002 and of the FTSE4Good since October 2002.

### A.2. Direct and indirect holders of significant holdings in the company at the date of the fiscal year end, excluding the directors:

As INDITEX's shares are represented by the book-entry method, and therefore there is no shareholder register kept by the company itself, it is not possible to know with precision the ownership structure of the company.

In any case, the company does not directly know of the existence of owners of significant holdings who are not directors.

However, it must be stated that according to data provided by the CNMV on its web page as at 31 January 2004, Chase Nominees Ltd., in its capacity as international custodian/depository bank, possessed a direct stake of 5.974% of the capital of the company.

### Most significant movements in shareholding structure over the fiscal year.

The company has no evidence of any significant movements in the shareholding structure over the year.

### A.3. Members of the board of directors of the company, who have shares in the company:

As at 31 January 2004, the members of the Board of Directors who had shareholdings in the share capital of the company were as follows:

NAME OR COMPANY NAME OF THE DIRECTOR	DATE OF FIRST APPOINTMENT	DATE OF LAST APPOINTMENT	NUMBER OF DIRECT SHARES	NUMBER OF INDIRECT SHARES *	% TOTAL OF SHARE CAPITAL
D. Amancio Ortega Gaona	12-06-1985	20-07-2000	63	369,600,000 <sup>(1)</sup>	59.294%
D. José María Castellano Ríos	12-06-1985	20-07-2000	1,373,863	0	0.22%
D. Juan Carlos Rodríguez Cebrián	28-02-1997	20-07-2000	2,722,067	0	0.437%
D. Antonio Abril Abadín	12-12-2002	18-07-2003	168,276	0	0.027%
ROSP CORUNNA, S.L.	29-12-2000	19-01-2001	0	43,590,000 <sup>(2)</sup>	6.993%
D. Carlos Espinosa de los Monteros Bernaldo de Quirós	30-05-1997	20-07-2000	11,646	0	0.002%
D. Francisco Luzón López	28-02-1997	20-07-2000	98,000	565 <sup>(3)</sup>	0.016%
D. Juan Manuel Urgoiti López de Ocaña	02-01-1993	20-07-2000	5,000	0	0.001%

\*Through:

NAME OR COMPANY NAME OF THE DIRECT HOLDER OF THE STAKE	NUMBER OF DIRECT SHARES
GARTLER, S.L.	369,600,000 <sup>(1)</sup>
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	43,590,000 <sup>(2)</sup>
CAÑABARA, S.A.	565 <sup>(3)</sup>
<b>Total:</b>	<b>413,190,565</b>
<b>% Total of the share capital in the possession of the board of directors</b>	<b>66.99%</b>

The participation of the members of the Board of Directors in the capital of the company reflected in the tables above does not take into account the shares acquired by the directors as a consequence of the exercise of the stock option rights granted under the framework of the Options Plan referred to in section B.1.10 below, which were received in February 2004.

### Members of the board of directors who have rights over shares in the company:

NAME OR COMPANY NAME OF THE DIRECTOR	NUMBER OF DIRECT OPTION RIGHTS	NUMBER OF INDIRECT OPTION RIGHTS	EQUIVALENT NUMBER OF SHARES	% TOTAL OF SHARE CAPITAL
D. José María Castellano Ríos	7,248	0	7,248	0.001%
D. Juan Carlos Rodríguez Cebrián	7,248	0	7,248	0.001%
D. Antonio Abril Abadín	6,040	0	6,040	0.001%
D. Carlos Espinosa de los Monteros Bernaldo de Quirós	6,040	0	6,040	0.001%
D. Fred Horst Langhammer	6,040	0	6,040	0.001%
D. Francisco Luzón López	6,040	0	6,040	0.001%
Dña. Irene Ruth Miller	6,040	0	6,040	0.001%
D. Juan Manuel Urgoiti López de Ocaña	6,040	0	6,040	0.001%

**A.4. Family, business, contractual or company relationships existing between the holders of significant holdings:**

The company is unaware of the existence of any family, business, contractual or company relationships existing between the holders of significant holdings that are of a relevant nature or that do not stem from the ordinary course of trade..

**A.5. Business, contractual or company relationships existing between the holders of significant holdings and the company:**

There have been no relations of a business, contractual or company nature between the holders of significant holdings and the company that are of a relevant nature or that do not stem from the ordinary course of trade, other than those that are shown in section C below, relating to related-party transactions.

**A.6. Parasocial agreements entered into between shareholders that have been communicated to or are known of by the company:**

The company has not received any communications in relation to the making of parasocial agreements nor does it have any proof of the existence of concerted actions between its shareholders.

**A.7. Legal or natural persons who exert control or could exert control over the company in accordance with article 4 of the Spanish Stock Exchange Act:**

NAME OR COMPANY NAME	OBSERVATIONS
GARTLER, S.L.	Through GARTLER, S.L., Amancio Ortega Gaona holds 59.294% of the share capital.

**A.8. Treasury stock of the company:**

At year-end closing:

NÚMERO DE ACCIONES DIRECTAS	NÚMERO DE ACCIONES INDIRECTAS	% TOTAL SOBRE CAPITAL SOCIAL
41.000	0	0,007%

On 10 May 2003, 164,200 of the shares in the company were sold, representing 0.026% of the share capital, for a total amount of 481,106 euros. That sale was carried out upon the exercise by the last beneficiary of the option right which that beneficiary held vis-à-vis INDITEX for the acquisition of the shares within the framework of a Stock Option Plan approved in 1998 and ratified by the General Meeting of Shareholders of INDITEX on 20 July 2000, which was described in the Spanish IPO prospectus of INDITEX [*Folleto Informativo Completo de la Oferta Pública de Venta de acciones de INDITEX*], verified and registered by the CNMV on 27 April 2001.

**A.9. Conditions and term of the current mandate given by the general meeting to the board of directors to carry out acquisitions or transfers of the company's own shares.**

At the date of the issue of this report, the authorisation granted by the General Meeting of Shareholders of the company at its meeting held on 18 July 2003 remains in force, by virtue of which the Board of Directors was authorised to acquire the company's own shares. Below is a literal transcription of the resolution passed by the aforementioned General Meeting on item six of the Agenda:

*Authorize the Board of Directors, so that, in accordance with the provisions of article 75 and following articles of the Spanish Corporation Law, it can proceed to the derivative acquisition of its own shares either directly or through any affiliated companies in which the company is the controlling company, respecting the legal limits and requirements and the following conditions:*

*a) Methods of acquisition: the acquisition shall be done via sharedealing, exchange or dation in payment.*

*b) Maximum number of shares to acquire: shares with a nominal value that, added to those already directly or indirectly possessed by the company, does not exceed 5% of the share capital.*

*c) Maximum and minimum prices: the minimum price of acquisition of the shares shall be their nominal value and the maximum price shall be up to 105% of their market value at the date of purchase.*

*d) Duration of the authorization: eighteen (18) months from the date of this resolution.*

*With regard to the provisions of the last paragraph of section 1 of article 75 of the Spanish Corporation Law, in its drafting given by Law 55/1999, of 29 December, it is herein indicated that the shares that are acquired by virtue of this authorization may be allocated by the company, amongst other ends, to their delivery to the employees or directors of the company whether directly or as a consequence of the exercise of the option rights by those holding them, by virtue of the personnel compensation plans of the company or of its group approved by the General Meeting of Shareholders.*

*This authorization annuls the authorization approved by the General Meeting of Shareholders held on 19 July 2002.*

**A.10. Legal and statutory restrictions on the exercise of voting rights, as well as the legal restrictions on the acquisition or transfer of stakes in the share capital.**

All the shares of the company have the same voting and financial rights and there are no legal or statutory restrictions on the acquisition or transfer of shares.

As regards the exercise of voting rights, the only restriction is that contained in article 44 of the Spanish Corporation Law (hereinafter, "SCL"), which provides that a shareholder who is in arrears in the payment of capital calls may not exercise their right to vote.

## B. ADMINISTRATIVE STRUCTURE OF THE COMPANY

### B.1. BOARD OF DIRECTORS

Apart for the matters reserved for the competence of the General Meeting, the Board of Directors is the highest decision-making, supervisory and controlling body of the company, as it is entrusted with the direction, administration, management and representation of the company, delegating in general the management of the day-to-day business of INDITEX to the executive bodies and to the management team and concentrating its efforts on the general supervisory function, which includes directing the policy of INDITEX, monitoring management activity, assessing the management by the senior management, taking the most relevant decisions and acting as a link with the shareholders.

The Board performs its functions under the principle of maximising the value of the company, determining and reviewing its business and financial strategies in the light of said criterion.

The Chairman of the Board of Directors shall be the person to assume the chairmanship of the administrative bodies of INDITEX. At the present time, Amancio Ortega Gaona is the Chairman of the Board and of its Executive Committee.

The Deputy Chairman or Deputy Chairmen will substitute the Chairman in case of his absence or if it is impossible for him to act, or when the Chairman himself should so decide. The office of Deputy Chairman of the Board of Directors is held by José María Castellano Ríos.

The Secretary, who need not be a director, shall help the Chairman in his duties, provide the necessary advice and information to the directors and shall devote particular attention to the legal and material formality of the Board's decisions. A Deputy Secretary may also be appointed, who need not be a director, to assist the Secretary or to substitute him in case of his absence or if it is impossible for him to act for the performance of his functions.

The Secretary and Letrado Asesor [Consulting Lawyer] of the Board of Directors of INDITEX, Antonio Abril Abadín, holds the office of board member, General Counsel and Secretary of the Board. Javier Monteoliva Díaz, Director of the Legal Department, holds the office of Deputy Secretary, non-member, of the Board.

The Board will hold ordinary meetings on a three-monthly basis and, on the initiative of the Chairman, as many times as this latter considers advisable for the good working of the company. The Board must also meet when at least one third of its members so request.

#### B.1.1. Maximum and minimum number of directors provided in the articles of association:

MAXIMUM NUMBER OF DIRECTORS	12
MINIMUM NUMBER OF DIRECTORS	5

### B.1.2. Members of the Board:

NAME OR COMPANY NAME OF THE DIRECTOR	REPRESENTATIVE	OFFICE ON THE BOARD	DATE OF FIRST APPOINTMENT	DATE OF LATEST APPOINTMENT	ELECTION PROCEDURE
D. Amancio Ortega Gaona		Chairman	12-06-1985	20-07-2000	General Meeting
D. José María Castellano Ríos		Deputy Chairman	12-06-1985	20-07-2000	General Meeting
D. Juan Carlos Rodríguez Cebrián		Ordinary member	28-02-1997	20-07-2000	General Meeting
D. Antonio Abril Abadín		Secretary	12-12-2002	18-07-2003	General Meeting
D. Carlos Espinosa de los Monteros Bernaldo de Quirós		Ordinary member	30-05-1997	20-07-2000	General Meeting
D. Fred Horst Langhammer		Ordinary member	20-04-2001	20-04-2001	General Meeting
D. Francisco Luzón López		Ordinary member	28-02-1997	20-07-2000	General Meeting
Dña. Irene Ruth Miller		Ordinary member	20-04-2001	20-04-2001	General Meeting
ROSP CORUNNA, S.L.	Dña. Rosalia Mera Goyenechea	Ordinary member	29-12-2000	19-01-2001	General Meeting
D. Juan Manuel Urgoiti López de Ocaña		Ordinary member	02-01-1993	20-07-2000	General Meeting
<b>TOTAL NUMBER OF DIRECTORS</b>					<b>10</b>

### Resignations or dismissals that have occurred during the period in the board of directors:

There have been no resignations or dismissals in the Board of Directors during this fiscal year.

### B.1.3. Members of the board and their various natures:

#### EXECUTIVE DIRECTORS

NAME OR COMPANY NAME OF THE BOARD MEMBER	COMMITTEE WHICH PROPOSED THAT MEMBER'S APPOINTMENT	POSITION IN THE ORGANISATIONAL CHART OF THE COMPANY
D. Amancio Ortega Gaona	(1)	Chairman
D. José María Castellano Ríos	(1)	Deputy Chairman - Chief Executive Officer (CEO)
D. Juan Carlos Rodríguez Cebrián	(1)	Managing Director
D. Antonio Abril Abadín	Nomination and Remuneration Committee	General Counsel

(1) Both the first appointment and the latest re-election of the executive directors Amancio Ortega Gaona, José María Castellano Ríos and Juan Carlos Rodríguez Cebrián took place before the creation of the Nomination and Remuneration Committee.

#### NON-EXECUTIVE DOMANIAL DIRECTORS

NAME OR COMPANY NAME DEL CONSEJERO	COMMITTEE WHICH PROPOSED THAT MEMBER'S APPOINTMENT	NAME OR COMPANY NAME OF THE SIGNIFICANT SHAREHOLDER BEING REPRESENTED OR WHO HAS PROPOSED THE APPOINTMENT
ROSP CORUNNA, S.L.	(1)	ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.

(1) Both the first appointment and the latest re-election of ROSP CORUNNA, S.L. as member of the Board of Directors took place before the creation of the Nomination and Remuneration Committee.

## NON-EXECUTIVE INDEPENDENT DIRECTORS

NAME OR COMPANY NAME OF THE BOARD MEMBER	COMMITTEE WHICH PROPOSED THAT MEMBER'S APPOINTMENT	PROFILE
D. Carlos Espinosa de los Monteros Bernaldo de Quirós	(1)	(2)
D. Fred Horst Langhammer	Nomination and Remuneration Committee	(2)
D. Francisco Luzón López	(1)	(2)
Dña. Irene Ruth Miller	Nomination and Remuneration Committee	(2)
D. Juan Manuel Urgoiti López de Ocaña	(1)	(2)

(1) Both the initial appointment and the most recent re-election of the non-executive, independent directors, Carlos Espinosa de los Monteros Bernaldo de Quirós, Francisco Luzón López and Juan Manuel Urgoito López de Ocaña are prior to the creation of the Nomination and Remuneration Committee.

(2) A brief description of the profile of the independent, non-executive members of the Board of Directors of the company is given below:

### *Carlos Espinosa de los Monteros Bernaldo de Quirós. (59)*

An independent director since May 1997. A graduate in Law and Business Studies from ICADE, he is a Commercial Expert and State Economist and holds an MBA from Northwestern University. He has been the Deputy Chairman of the Instituto Nacional de Industria, Chairman of the Board of Directors of Iberia and Aviaco, member of the Executive Committee of the International Air Transport Association and Chairman of the Circulo de Empresarios, of the Spanish Association of Car and Truck Manufacturers and of the International Organisation of Motor-Vehicle Manufacturers. At the present time he is the Chairman of the Board of Directors of Daimler Chrysler España Holding, of Mercedes Benz España and of González Byass, S.A. and Board member of Acciona, S.A..

### *Fred H. Langhammer. (60)*

An independent director since April 2001. He began his career at Eatons, a Canadian operator of department stores, and later was appointed General Manager of Dodwell Import, a Japanese subsidiary of the British firm, Inchcape. He went on to join Estée Lauder Companies Inc. in 1975 as President of Estée Lauder Japan. In 1982 he was appointed Managing Director of Estée Lauder Germany, and in 1985 he moved to New York and was promoted to President and Chief Operating Officer of Estée Lauder Companies Inc. In 1999 he was newly promoted, to the position of President and CEO. Mr. Langhammer is a member of the board of The Estee Lauder Companies Inc. and The Gillette Company. He is Co-Chairman of the American Institute for Contemporary German Studies at John Hopkins University and a senior fellow of the Foreign Policy Association and a board member of The Japan Society.

### *Francisco Luzón López. (56)*

An independent director since February 1997. He is a graduate in Business Studies and Economics from the University of Bilbao. He has collaborated as a lecturer at the University of Deusto (Bilbao). He joined the Banco de Vizcaya in 1972, gaining wide experience in that Group in different Units and functions, becoming General Manager and Board member in 1986. In 1988 and after its merger with the Banco de Bilbao, he went on to become a member of the Board of Directors of the Banco Bilbao Vizcaya. At the end of the same year, he was appointed President of the Banco Exterior de España, office which he held from 1988 to 1996. In 1991 he was the impulse behind the creation of the new Grupo Bancario Argentaria of which he was the founder and was Chairman until 1996. After that year, he joined the Banco Santander Central Hispano as Director-General Manager, Deputy to the Chairman and in charge of Strategy, Communication and Institutional Relations. At the present time, he is responsible for the area of Latin America for the aforementioned financial institution.

*Irene R. Miller. (51)*

An independent member of the Board since April 2001. She is a science graduate of the University of Toronto with a Bachelor in Science and of Cornell University with a Master of Science in chemistry. She began her career at General Foods Corporation and later worked as an investment banker for Rothschild Inc. and Morgan Stanley & Co. In 1991 she joined Barnes & Noble as Senior Vice President of Corporate Finance and in 1993, before the flotation of Barnes & Noble, became Chief Financial Officer. In 1995, she was appointed director and Vice-Chairman of the Board of Directors of Barnes & Noble. In 1997 she was appointed CEO of Akin, Inc., an American investment and consulting firm. She is also a member of the Boards of Directors of Coach Inc., Oakley, Inc. and The Body Shop International Plc.

*Juan Manuel Urgoiti López de Ocaña. (64)*

He has been an independent director since January 1993. He is a graduate in Law from the University of Madrid, beginning his career in the Banco de Vizcaya in 1962. After occupying many executive positions, he was appointed General Manager in 1978, director in 1984 and CEO in 1986. In 1988, after its merger with the Banco Bilbao he was appointed CEO of the Banco Bilbao Vizcaya. He has been President of Ahorrobank, Banco de Crédito Canario, Banco Occidental, Instituto de Biología y Sueroterapia and Laboratorios Delagrangue and Board member of Antibióticos, S.A. At the present time he is the Chairman of the Banco Gallego, Deputy Chairman of Acciona, S.A., member of the Board of Necso, S.A., and member of the European Advisory Board of Citigroup Global Markets. He is Chairman of the Board of Trustees, or Real Patronato, of the Reina Sofia National Museum and Art Centre and a member of the Reales Patronatos of the Prado Museum and of the Spanish National Library. He is President of the private foundation Fundación José Antonio de Castro and is a member of other foundations and institutions. He holds the Gran Cruz de Mérito Civil and has been awarded the honour of Commander of the Order of the British Empire.

**OTHER NON-EXECUTIVE DIRECTORS**

**Reasons why they can not be considered domanial or independent:**

There are no other non-executive directors that cannot be considered domanial or independent directors.

**Variations that, where appropriate, have occurred during the period in the type of each director:**

There have been no variations in the type of directors during the fiscal year.

**B.1.4. Classification of the directors in relation to the distribution provided in the board's regulations:**

The Board of Directors' Regulations lay down that the Board of Directors shall be made up of directors from the three types that are described below:

- a) Executive directors, understanding as such that or those managing directors and those who under whatever title fulfil management responsibilities in the company.
- b) Domanial directors, understanding these to be the holders or the representatives of the holders of significant stable shareholdings in the share capital of the company that, regardless of whether these shareholdings entitle them to a position on the administrative body, have been deemed sufficiently significant by the Board.
- c) Independent directors, understanding as such those professionals of repute who are not linked to the executive team or the significant shareholders and that meet the requirements that ensure their impartiality and objectivity of opinion.

The aforementioned Regulations also state that the Board of Directors, in the exercise of its powers of proposal to the General Meeting and of cooption for the covering of vacant positions, shall ensure that the proportion of independent directors on the Board be at least equal to the floating capital of the company.

The number of independent directors, five, is much greater than would correspond proportionally to the Board taking into account the floating capital of the company. In that respect, INDITEX was already ahead of the recommendations of the Olivencia Committee and of the Aldama Report when the company's first independent director, Juan Manuel Urgoiti López de Ocaña, joined the Board in January 1993. In 1997, the General Meeting appointed as independent directors Francisco Luzón López and Carlos Espinosa de los Monteros Bernaldo de Quirós.

Continuing this criterion of introducing independent professionals of repute onto the Board of Directors, the General Meeting of Shareholders held in April 2001 appointed two new independent directors —Irene R. Miller and Fred Horst Langhammer— raising the number to five, fully complying with the recommendations of the Olivencia Committee and of the Aldama Report, as the non-executive directors make up the majority on the Board and half of the Board are independent directors.

Only the independent directors can be members of the Audit and Control Committee and the Nomination and Remuneration Committee.

#### **B.1.5. Powers that have been delegated to the managing director:**

The Chairman of the Board of Directors and the Executive Committee, Amancio Ortega Gaona, and the Deputy Chairman and CEO, José María Castellano Ríos, have been delegated each and every one of the powers contained in the list included further below, and these must be exercised in the following manner and conditions: all of them severally, without distinction, with the exception of those that: a) involve the disposal of funds of above a certain amount, in which case it shall be necessary that the aforementioned two members of the Executive Committee act jointly or that either one of these acts jointly with another person who in virtue of any legal title is also empowered with the power in question; or/and b) involve the alienation or encumbrance of immovables of the company, for which the prior agreement of the Executive Committee or, where appropriate, the Board of Directors, shall be required.

The requirement of joint action provided in the preceding paragraph shall not apply when it involves transactions, actions or contracts that, regardless of the amount involved, are carried out or awarded between companies belonging to the INDITEX group of companies, understanding as such those companies, whether Spanish or foreign, in which INDITEX, S.A., whether directly or indirectly through other investee companies, is the holder of at least 50% of its share capital, in which case either of the two members of the Committee in whom powers have been vested may act severally on their own, in the name and on behalf of the company, independently of the amount involved in the matter in question.

List of delegated powers:

1. To appear and represent the company vis-à-vis any public or private entity or person whatsoever. To exercise such powers as may be required for the management and defence of the rights of the company.
2. To claim and collect amounts owing to the company. To make payments. To render and require the rendering of accounts. To provide, cancel and recover bonds and deposits.

- 3.** To enter into all manner of loan and credit agreements. To open accounts with credit institutions and/or finance companies; to deposit or pay in cash sums, withdraw amounts or dispose of same; make payments; and to approve or challenge the balances shown in such accounts; to stand guarantee for other companies belong to the INDITEX group of companies and to carry out all that is permitted under the legislation and banking practices.
- 4.** To act in relation to bills of exchange and cheques, both as issuer and receiver thereof, and to exercise any of the other actions provided for in the Bills of Exchange and Cheques Act or any other applicable legislation.
- 5.** To execute acts and contracts relating to all manner of movables and real property, rights, securities, participation units, shares and interests, under such provisions, clauses and terms as are deemed appropriate. To act with the broadest powers in the execution and performance thereof, as well as to amend, novate, cancel or terminate the same.
- 6.** To enter into all manner of agreements for business collaboration, such as franchise contracts, joint-venture contracts, accounts in participation, commercial distribution, licence and agency contracts and, in general, all those that the expansion of the company may require.
- 7.** To appear in deeds of incorporation, alteration, merger or winding-up of all kinds of entities and companies, and attend assemblies, meetings or ordinary and extraordinary meetings, intervening therein and casting their vote in the manner that they deem appropriate and exercising in the name of the company any rights that it may have.
- 8.** To set up the offices, workplaces and buildings of the company and to organize the services provided therein. To hire staff; to freely appoint and remove the same; to establish their rights, duties, powers and functions; to agree upon promotions and transfers; to exercise penalization and disciplinary powers; as well as to act on behalf of the company before the employees' collective representation bodies and to represent it in the negotiation of agreements or pacts.
- 9.** To represent the company before any manner of authorities and administrative bodies that have authority in labour and Social Security matters, to appear and act in all manner of cases and proceedings and to carry out all those acts that are necessary in the labour life of the company.
- 10.** To represent the company before all manner of authorities and administrative bodies that have authority in respect of Health and Safety at Work and Labour Risks. To carry out all that may be necessary to promote and maintain the safety of the workers in the workplaces. To proceed to insure common and occupational risks of the workers.
- 11.** As regards procedural rules, to exercise all those actions that are available to the company and to waive those brought. To appear before the ordinary and special Courts of Law and Tribunals of all levels and jurisdictions, in all manner of trials and cases.
- 12.** To compromise and refer to arbitrators all matters in respect of which they are empowered.
- 13.** To execute in public deeds the resolutions passed by the General Meeting of shareholders, the Board of Directors and the Executive Committee.

**B.1.6. Members of the board who hold the position of director or senior manager in other companies that are part of the group of the listed company:**

NAME OR COMPANY NAME OF THE DIRECTOR	COMPANY NAME OF THE ENTITY OF THE GROUP	OFFICE
D. José María Castellano Ríos	COMDITEL, S.A.	Director
	CONFECCIONES FIOS, S.A.	Director
	CONFECCIONES GOA, S.A.	Director
	CHOOLET, S.A.	Director
	DENLLO, S.A.	Director
	GLENCARE, S.A.	Director
	GOA-INVEST, S.A.	Director
	GRUPO MASSIMO DUTTI, S.A.	Director
	HAMPTON, S.A.	Director
	INDITEX, S.A.	Chairman
	INVERCARPRO, S.A.	Director
	KENNER, S.A.	Director
	KETTERING, S.A.	Director
	KIDDY'S CLASS ESPAÑA, S.A.	Director
	LEFTIES ESPAÑA, S.A.	Director
	NIKOLE, S.A.	Director
	OYSHO ESPAÑA, S.A.	Director
	PLATAFORMA EUROPA, S.A.	Director
	PULL & BEAR LOGÍSTICA, S.A.	Director
	SAMLOR, S.A.	Director
	SIRCIO, S.A.	Director
	STEAR, S.A.	Director
	STRADIVARIUS ESPAÑA, S.A.	Director
	TEMPE, S.A.	Director
	TEMPE LOGÍSTICA, S.A.	Director
	TEXTIL RASE, S.A.	Director
	TRISKO, S.A.	Director
	YEROLI, S.A.	Director
	ZARA, S.A.	Director
	ZARA ESPAÑA, S.A.	Chairman
	ZARA LOGÍSTICA, S.A.	Director
	ZINTURA, S.A.	Director
	BERSHKA BELGIQUE, S.A.	Director
	BERSHKA NEDERLAND, B.V.	Director
	G.ZARA URUGUAY, S.A.	Director
	MASSIMO DUTTI NORGE, AS	Director
	MASSIMO DUTTI SVERIGE, AB	Director
	MASSIMO DUTTI UK LTD.	Director
	OYSHO ÖSTERREICH CLOTHING, GmbH	Director
	OYSHO NEDERLAND, B.V.	Director
VAJO, S.A.	Director	
ZA CLOTHING IRELAND LTD.	Director	
ZA LTD.	Director	

ZARA BELGIOUE, S.A.	Director	
ZARA CANADA, S.A.	Director	
ZARA CESHÁ REPUBLIKA, s.r.o.	Director	
ZARA DANMARK, AS	Chairman	
ZARA DEUTSCHLAND, GmbH	Chairman	
ZARA HELLAS, S.A.	Chairman	
ZARA HOME UK LTD.	Director	
ZARA LUXEMBOURG, S.A.	Director	
ZARA MEXICO, S.A. DE C.V.	Director	
ZARA NEDERLAND, B.V.	Director	
ZARA NORGE, AS	Chairman	
ZARA ÖSTERREICH CLOTHING, GmbH	Director	
ZARA PUERTO RICO INC.	Secretary	
ZARA SUISSE, SARL	Director	
ZARA SVERIGE, AB	Chairman	
ZARA UK LTD.	Secretary	
ZARA USA INC.	Secretary	
ZARA VASTGOED HELLAS, S.A.	Director	
ZARA VENEZUELA, S.A.	Chairman	
<b>NAME OR COMPANY NAME OF THE DIRECTOR</b>	<b>COMPANY NAME OF THE ENTITY OF THE GROUP</b>	<b>OFFICE</b>
D. Juan Carlos Rodríguez Cebrián	BERSHKA BSK ESPAÑA, S.A.	Director
	BERSHKA LOGISTICA, S.A.	Director
	COMDITEL, S.A.	Director
	CONFECCIONES FIOS, S.A.	Director
	CONFECCIONES GOA, S.A.	Director
	CHOOLET, S.A.	Director
	DENLLO, S.A.	Director
	GLENCARE, S.A.	Director
	GOA-INVEST, S.A.	Director
	GRUPO MASSIMO DUTTI, S.A.	Director
	HAMPTON, S.A.	Director
	INDITEX, S.A.	Director
	INVERCARPRO, S.A.	Director
	KENNER, S.A.	Director
	KETTERING, S.A.	Director
	KIDDY'S CLASS ESPAÑA, S.A.	Director
	LEFTIES ESPAÑA, S.A.	Director
	MASSIMO DUTTI LOGISTICA, S.A.	Director
	NIKOLE, S.A.	Director
	OYSHO ESPAÑA, S.A.	Director
	OYSHO LOGISTICA, S.A.	Director
	PLATAFORMA EUROPA, S.A.	Chairman
	PULL & BEAR ESPAÑA, S.A.	Director
	SAMLOR, S.A.	Director
	SIRCIO, S.A.	Director
	STEAR, S.A.	Director
	STRADIVARIUS ESPAÑA, S.A.	Director

TEXTIL RASE, S.A.	Director
TRISKO, S.A.	Director
YEROLI, S.A.	Director
ZARA, S.A.	Director
ZARA ESPAÑA, S.A.	Director
ZARA LOGÍSTICA, S.A.	Chairman
ZINTURA, S.A.	Director
G.ZARA URUGUAY, S.A.	Director
VAJO, S.A.	Director
ZA CLOTHING IRELAND LTD.	Director
ZA LTD.	Director
ZARA ARGENTINA, S.A.	Chairman
ZARA BELGIOUE, S.A.	Director
ZARA CANADA, S.A.	Director
ZARA CHILE, S.A.	Director
ZARA DANMARK, AS	Director
ZARA HOME UK LTD.	Director
ZARA ITALIA, S.R.L.	Chairman
ZARA LUXEMBOURG, S.A.	Director
ZARA MÉXICO, S.A. DE C.V.	Director
ZARA NEDERLAND, B.V.	Director
ZARA NORGE, AS	Director
ZARA ÖSTERREICH CLOTHING, GmbH	Director
ZARA PUERTO RICO INC.	Chairman
ZARA SVERIGE, AB	Director
ZARA UK LTD.	Director
ZARA USA INC.	Chairman
ZARA VASTGOED HELLAS, S.A.	Chairman
ZARA VENEZUELA, S.A.	Director

<b>NAME OR COMPANY NAME OF THE DIRECTOR</b>	<b>COMPANY NAME OF THE ENTITY OF THE GROUP</b>	<b>OFFICE</b>
D.Antonio Abril Abadin	G.ZARA URUGUAY, S.A.	Director
	VAJO, S.A.	Director
	ZARA BELGIOUE, S.A.	Director
	ZARA CANADA, S.A.	Director
	ZARA CHILE, S.A.	Director
	ZARA DANMARK, AS	Director
	ZARA HELLAS, S.A.	Director
	ZARA LUXEMBOURG, S.A.	Director
	ZARA MÉXICO, S.A. DE C.V.	Director
	ZARA NORGE, AS	Director
	ZARA SUISSE, SARL	Director
	ZARA SVERIGE, AB	Director
	ZARA VASTGOED, B.V.	Director
	ZARA VASTGOED HELLAS, S.A.	Director
	ZARA VENEZUELA, S.A.	Director

**B.1.7. Directors of the company that are members of boards of directors of other companies that are listed on official stock markets in Spain and are not part of the group:**

NAME OR COMPANY NAME OF DIRECTOR	LISTED COMPANY	OFFICE
ROSP CORUNNA, S.L.	ZELTIA, S.A.	Member of the Board
Carlos Espinosa de los Monteros Bernaldo de Quirós	ACCIONA, S.A.	Member of the Board
Francisco Luzón López	BSCH	Member of the Board
Juan Manuel Urgoiti López de Ocaña	ACCIONA, S.A.	Deputy Chairman

On 30 April 2004, the company FADESA INMOBILIARIA, S.A., of which José María Castellano Ríos is a director, was admitted to listing.

**B.1.8. Total remuneration of the directors that has accrued during the year.**

**a) In the company that is the subject of this report:**

**ITEM - REMUNERATION** *(Amounts in thousands of euros)*

Fixed remuneration	2,746
Variable remuneration	866
Per diems	—
Provisions set forth in the Articles of Association	—
Options on shares and/or other financial instruments	1,603
Others	974
<b>Total</b>	<b>6,189</b>

**OTHER BENEFITS** *(Amounts in thousands of euros)*

Advances	—
Loans granted	—
Pension Funds and Plans: Contributions	—
Pension Funds and Plans: Obligations contracted	—
Life insurance premiums	—
Guarantees contracted by the company in favour of the directors	—

**b) From the company's directors belonging to other boards of directors and/or the senior management of companies of the group:**

**ITEM - REMUNERATION** *(Amounts in thousands of euros)*

Fixed remuneration	342
Variable remuneration	—
Per diems	—
Provisions set forth in the Articles of Association	—
Options on shares and/or other financial instruments	—
Others	—
<b>Total</b>	<b>342</b>

**OTHER BENEFITS** (Amounts in thousands of euros)

Advances	—
Loans granted	—
Pension Funds and Plans: Contributions	—
Pension Funds and Plans: Obligations contracted	—
Life insurance premiums	—
Guarantees contracted by the company in favour of the directors	—

**c) Total remuneration by type of director:**

TYPE OF DIRECTOR	BY COMPANY	BY GROUP
Executive	4,762	342
Non-executive Domanial	60	—
Non-executive Independent	1,367	—
Other Non-executive	—	—
<b>Total</b>	<b>6,189</b>	<b>342</b>

**d) With respect to the income attributed to the controlling company:**

<b>TOTAL REMUNERATION OF DIRECTORS</b> (thousands of euros)	<b>6,531</b>
<b>TOTAL REMUNERATION OF THE DIRECTORS / INCOME ATTRIBUTED TO THE CONTROLLING COMPANY</b> (expressed in %)	<b>1.46%</b>

**B.1.9 Identification of the members of senior management who are not in turn executive directors and total remuneration accrued in their favour during the fiscal year:**

NAME OR COMPANY NAME	POSITION
Fernando Aguiar Maragoto	Director of Internal Auditing
Lorena Alba Castro	Logistics Manager
José Pablo del Bado Rivas	Director of PULL & BEAR
Álvaro Cañete Díaz	Director of KIDDY'S CLASS
Eva Cárdenas Botas	Director of ZARA HOME
Diego Copado Fernández	Corporate Communication Dept. Director
Javier Chércoles Blázquez	Corporate Responsibility Dept. Director
Borja de la Cierva Álvarez de Sotomayor	Financial Director and Director of Management Control
Ignacio Fernández Fernández	Director of Tax Department
Agustín García-Poveda Fernández	Deputy Managing Director
Marcos López García	Capital Markets Director
Carlos Mato López	Director of ZARA
Javier Monteoliva Díaz	Director of Legal Department
Jorge Pérez Marcote	Director of MASSIMO DUTTI
Óscar Pérez Marcote	Director of BERSHKA
Ramón Reñón Túñez	Expansion Manager
Antonio Rubio Merino	Administration Manager
Juan Carlos Salgado Badás	Director of Systems
Carmen Sevillano Chaves	Director of OYSHO
Jordi Triquell Valls	Director of STRADIVARIUS
Jesús Vega de la Falla	HR Director

<b>TOTAL REMUNERATION SENIOR MANAGEMENT</b> (thousands of euros)	<b>8,358</b>
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**B.1.10 Guarantee or protective clauses, for cases of dismissal or changes in control, in favour of the members of the senior management, including the executive directors of the company or of its group. Communication and/or approval of these by the governing bodies of the company or of its group:**

Contracts with guarantee or protective clauses do not need to be approved by the governing bodies of the company or of the group or communicated to these. Among the modifications to the Board of Directors' Regulations approved by that body in its meeting held on, 10 June 2004, which will be reported on in the forthcoming General Meeting of Shareholders of the company, is that of the inclusion among the powers of the Nomination and Remuneration Committee of the power to report to the Board, before the holding of its meeting, on staff contracts containing guarantee or protective clauses for cases of dismissal or changes in control.

**B.1.11. Process used to establish the remuneration of the members of the board of directors and the clauses in the articles of association relating thereto.**

The General Meeting of Shareholders is the body responsible for approving the system and the amount of the remuneration of the directors.

Article 31 of the Articles of Association currently in force provides the following:

*1. The remuneration of the Directors shall consist of a fixed annual remuneration for each Director the amount of which shall be decided by the General Meeting of Shareholders for each fiscal year or be valid for those fiscal years that the Meeting establishes. In the same manner, the General Meeting of Shareholders may assign per diems for attendance of the meetings of the Board of Directors or of its Delegate or Consultative Committees and set the amount thereof.*

*2. Additionally, systems of remuneration may be established that are referenced to the market value of the shares or which entail the giving of shares or option rights over shares, destined for the Directors. The application of said systems of remuneration must be agreed by the General Meeting of Shareholders, which shall determine the value of the shares that it takes as a reference, the number of shares to be given, the exercise price of the option rights, the period of duration of this remuneration system and the other conditions that it considers appropriate.*

*Likewise, and after having met the requirements laid down by the Law, similar remuneration systems may be established for the personnel, whether management personnel or not, of the company and of the companies in its group.*

*3. The remuneration foreseen in this article shall be compatible with and independent of the salaries, remunerations, indemnifications, pensions or compensations of any kind, generally or extraordinarily established for those members of the Board of Directors who perform executive duties, whatever their relationship with the company, whether a labour (common or special senior management relationship), mercantile or service relationship, relationships that shall be compatible with the status of member of the Board of Directors.*

*4. The company may take out public liability insurance for its Directors.*

For their part, the Board of Directors' Regulations establish in Article 28:

*1. The director shall be entitled to receive the remuneration fixed by the General Meeting of Shareholders in accordance with the provisions of the Articles of Association and in accordance with the indications of the Nomination and Remuneration Committee.*

*2. The Board shall endeavour for the remuneration of the Director to be moderated according to market demands. Likewise, the Board shall ensure that the remuneration of the non-executive directors is such that it offers incentives to dedication by the directors, while not creating an obstacle as regards their independence.*

*3. The Nomination and Remuneration Committee shall prepare a report on an annual basis, which shall be submitted to the Board of Directors and shall be included in the Annual Report of the company. The report shall state, director by director, the amount of money they receive as directors, separating the different items, such as fixed allocations, per diems, share options or any other remuneration system bound to the shares. Furthermore, as regards the executive directors, it will mention, at least, the total aggregate remuneration they all receive from the company or from the companies of its group in respect of any office they might hold other than that of director.*

The General Meeting held on 20 July 2000 resolved to set, with indefinite validity until a later General Meeting should resolve otherwise, the remuneration of the directors of INDITEX in the following manner, the quantities stated in the sections below being totally independent and fully compatible between each other:

- a)** Each director will receive a fixed annual amount of 60,101.21c for the performance of his office.
- b)** The Chairman of the Executive Committee will receive an additional annual amount of 30,050.60c.
- c)** The directors who in turn form part of the Executive Committee (including the Chairman of the Executive Committee) will receive a fixed annual amount of 30,050.60c.
- d)** The Chairmen of the Audit and Control Committee and the Nomination and Remuneration Committee will receive a fixed annual amount of 18,030.36c.
- e)** The directors who in turn form part of the Audit and Control Committee and the Nomination and Remuneration Committee (including the Chairmen of the aforementioned Committees) will receive an additional fixed annual amount of 12,020.24c.

Additionally, it is recorded that, in its meetings held on 20 July 2000, 19 January and 20 April 2001, the General Meeting agreed to approve a Stock Option Plan on a maximum number of 3,018,400 ordinary shares of INDITEX, directed at the members of the Board of the company, certain senior executives and other key employees of the group.

The number of options finally granted is a result of the appreciation of the INDITEX share in the Stock Market in three different periods for calculation. The options are exercisable two years after the completion of each of the periods for calculation of the aforementioned increase in value, at the price of 2.93 euros per share, each option exercised entitling the exerciser to one INDITEX share.

On 30 January 2004 the term for exercise of the options accrued in the first period of calculation (2001) ended. The directors exercised their options over a total of 140,272 shares, which were delivered to the beneficiaries in February 2004, within the time limits established in the Plan itself.

In 2003, the conditions regarding appreciation that were established in the Plan were not met, and therefore the directors have not consolidated rights over options on shares.

**B.1.12. Members of the board who are, in turn, members of the board of directors or senior managers of companies that possess significant stakes in the listed company and/or entities of the group:**

NAME OR COMPANY NAME OF THE DIRECTOR	COMPANY NAME OF THE SIGNIFICANT SHAREHOLDER	OFFICE
Amancio Ortega Gaona	GARTLER, S.L.	Chairman of the Board

**Relevant relationships other than those covered in the foregoing paragraph of the members of the board of directors that link them with the significant shareholders and/or in entities of the group:**

There are no relevant relationships, other than those covered in the previous paragraph, of the members of the Board of Directors that link them to the significant shareholders and/or in entities of the group.

**B.1.13. Modifications made to the board of directors' regulations during the fiscal year:**

The Board of Directors of the company, in accordance with the changes introduced by the "Financial Law" relating to the regulation of corporate governance of listed companies, as well as the latest trends in that area expressed in the recommendations of the Aldama Report, agreed in its meeting on 20 March 2003 to modify various corporate governance rules of the company, amongst them being the Regulations of the Board of Directors itself.

The main modifications made to the Regulations were the following:

- a) To reinforce the functions of the Audit and Control Committee and the Nomination and Remuneration Committee, through establishing the requirement that these be made up solely of independent directors, and through the widening of the powers of both and the assignation of other new powers (amongst them, that of the preparation by the Audit and Control Committee of the annual corporate governance report).
- b) To include the concept of the Social Advisory Board, as the company's advisory body as regards corporate social responsibility.
- c) To strengthen the concept of the independent directors by adopting measures that guarantee the free and independent exercise of their functions, amongst them to enable the independent directors to hold meetings among themselves apart from the other members of the Board, and the nomination of a coordinator chosen from among the independent directors themselves. Likewise, an amendment was introduced prohibiting the nomination as independent director of any person who performs the office of director simultaneously in more than four listed companies other than INDITEX.

**d)** To introduce as an obligation of the Board of Directors that of approving the annual corporate governance report simultaneously with the annual accounts of each year, and to devote particular attention to the preparation of the public annual documentation based on the triple economic, social and environmental report, following the corporate responsibility model of the group and with the advice of the Social Advisory Board.

**e)** To regulate the corporate web page as an instrument for making available to the public all the information on the corporate governance of the company, expressly mentioning its contents, which shall include as a minimum:

*a.* the Articles of Association.

*b.* the Regulations of the General Meeting of Shareholders and of the Board of Directors and the annual corporate governance report.

*c.* the quarterly financial reports of the current fiscal year and the annual reports for the last two years, as well as the external auditors' report.

*d.* the composition of the Board of Directors and of its Committees.

*e.* the identification of the shareholders with stable direct or indirect stakes of which the company is aware, and their representation in the Board of Directors, as well as all parasocial agreements between shareholders, which have been communicated in any way to the company or to the markets.

*f.* the direct and indirect stakes of each member of the Board of the company.

*g.* the direct and indirect treasury stock of the company and significant variations in it.

*h.* the information included in the presentations to different market operators and significant shareholders.

*i.* Significant related-party transactions between the company and its directors or shareholders.

*j.* The notices of the General Meetings and other information relating thereto required by the Regulations of the General Meeting of Shareholders of the company in force at each moment, as well as the resolutions passed by the General Meetings held during the current fiscal year and during the last three closed fiscal years (until three complete fiscal years have elapsed since the listing of the company's shares on the Stock Market, those resolutions passed in the General Meetings held subsequent to the company's IPO).

*k.* The communications of relevant information sent to the *CNMV* in accordance with section 82 of the Spanish Stock Exchange Act (hereinafter the *SSEA*), in compliance with the provisions of the Internal Regulations of Conduct.

#### **B.1.14. Procedures for the appointment, re-election, assessment and removal of directors. Authorised bodies, procedures to be followed and criteria to be used in each of the procedures:**

The system for the selection, appointment and re-election of members of the Board of Directors of INDITEX constitutes a formal and transparent procedure, expressly regulated in the Articles of Association and the Board of Directors' Regulations.

The directors shall be appointed by the General Meeting, and shall hold their office during the period established to this purpose by the Meeting, which may not exceed the term of five years. If the resolution governing their appointment does not establish a term for the office, it shall be understood that they have been elected for five years.

The directors may be re-elected indefinitely, for periods of equal or less duration, by the General Meeting, which may likewise agree the removal of any of these at any time.

The Board of Directors itself may provisionally cover the vacancies that arise on said Board, designating from among the shareholders the persons who will have to fill the vacancies until the first General Meeting thereafter.

The proposals for the nomination of directors that the Board of Directors submits to be considered by the General Meeting, and the nomination decisions that said body adopts in virtue of those powers to co-opt that are legally attributed to it, must be preceded by the relevant report from the Nomination and Remuneration Committee.

When the Board departs from the Nomination and Remuneration Committee's suggestions, it must state the reasons for its actions and place its reasons on the record.

The Board of Directors and the Nomination and Remuneration Committee, within the scope of their competences, shall endeavour for the choice of candidates to fall on persons of well-known ability, competence and experience, and must maximize their rigour in relation to those persons called to cover the positions of independent directors.

The Board of Directors may not propose or appoint to fill an independent director's position any persons who do not satisfy the criteria of independence established in section 1.(c) of article 7 of the Board of Directors' Regulations, or those who at that time hold the position of director simultaneously in more than four listed companies other than the company.

The proposals for re-election of directors that the Board of Directors decides to submit to the General Meeting will have to be subjected to a formal process of preparation, which shall include, necessarily, a report issued by the Nomination and Remuneration Committee in which the quality of work and the dedication to office of the proposed directors during their previous mandate shall be assessed.

In this respect, the Nomination and Remuneration Committee has, amongst others, the following responsibilities:

- a)** To prepare and check the criteria that must be followed for the composition of the Board of Directors in addition to selecting the candidates;
- b)** To advise on the proposals for nominations of directors prior to their nomination by the General Meeting of Shareholders or, where appropriate, by the Board of Directors by the co-optation procedure;
- c)** To advise on the nomination of internal positions (Chairman, Deputy Chairman or Chairmen, CEO, Secretary and Deputy Secretary) of the Board of Directors;
- d)** To propose to the Board the members that must form part of each of the Committees;

Requests for information addressed to the Nomination and Remuneration Committee shall be made by the Board of Directors or its Chairman. Likewise, the Committee must consider the suggestions presented by the Chairman, the members of the Board, the management or the shareholders of the company.

As regards the assessment and removal of directors, the Nomination and Remuneration Committee is expressly entrusted with the following functions:

- a) To prepare and review the criteria that must be followed for the selection of the senior management of the company and to report on the appointment or removal of the senior managers reporting directly to the Board of Directors, including the CEO.
- b) Report annually to the Board on its assessment of the performance of the senior management of the company and especially of the CEO and his remuneration.

The Nomination and Remuneration Committee shall meet each time that the Board or its Chairman requests the issuing of a report or the adoption of proposals within the scope of its competences and, in any case, whenever it is suitable for the successful performance of its functions. In any event, it shall meet once a year to prepare the information about the directors' remuneration that the Board has to approve and to include in its annual public documentation.

#### **B.1.15. Cases in which the directors are obliged to resign:**

The Board of Directors' Regulations, in article 24, establishes a provision with respect to the obligation of the directors to resign in cases that could negatively affect the working of the Board or the credit and reputation of INDITEX.

The directors must place their office at the disposal of the Board of Directors and, if this latter should consider it advisable, tender their resignation in the following cases:

- a) When they reach a certain age, under the terms detailed in section B.1.20..
- b) When they cease to hold the executive positions to which their appointment as director was associated.
- c) When they are involved in any of the cases of incompatibility or prohibition foreseen in the Law, the Articles of Association or in the Board of Directors' Regulations. In particular, the independent directors shall place their office at the disposal of the Board of Directors and shall tender, when appropriate, their resignation in the event that they fall under any of the cases of incompatibility or prohibitions provided by article 7.1. (c) of those Regulations or in the event that they suddenly come to hold the post of director in more than four listed companies other than the company.
- d) When they are seriously admonished by the Audit and Control Committee for having breached their duties as directors.
- e) When their remaining on the Board might jeopardise the interest of the company or when the reasons for their appointment cease to exist.

**B.1.16. Measures aimed at limiting the risks of the accumulation of power in the top executive of the company and chairman of the board:**

The function of top executive falls to the Chairman of the Board, Amancio Ortega Gaona.

The CEO, José María Castellano Ríos, has been a member of the Board of Directors since June 1985 and Deputy Chairman of the Board since February 1997.

The measures to limit the risks of the accumulation of power in a single person are found not only in the designation of a Deputy Chairman of the Board and CEO and in the delegation of powers to this person, but also through the granting of wide powers to the executive directors, the Managing Director, Juan Carlos Rodríguez Cebrián, and the General Counsel, Antonio Abril Abadín, which are complementary to the powers delegated to the Chairman and CEO.

**B.1.17. Enhanced majorities that are different to the majorities provided in the law. Passing of resolutions by the board of directors, minimum quorum of attendance and type of majorities required to pass resolutions:**

Article 27 of the Articles of Association of the company establishes:

*1. The Board shall meet whenever required by the interests of the company. Meetings shall be convened by the Chairman or acting Chairman, on his own initiative or at the request of at least one-third of its members.*

*2. Board meetings shall be validly held when attended either in person or by proxy by half plus one of the members in office.*

*Without prejudice to the foregoing, the Board shall be understood to be validly constituted without the need for notice if all its members are present in person or by proxy and they unanimously agree to the holding of a meeting.*

*The Board may also pass resolutions in writing without needing to hold a meeting, in accordance with the provisions of the Spanish Corporation Law. Likewise, the meetings of the Board shall be held via telephone multiconference, videoconference or via any other similar system that allows one or several directors to attend the meeting through such system. To this end, the notice of the meeting of the Board of Directors shall state the location where the meeting is physically to be held, to which the Secretary of the Board must go. It shall also state that it is possible to attend said meeting via telephone conference call, videoconference or via an equivalent system, and it must indicate and have available the appropriate technical devices required for this purpose, in order to permit direct and simultaneous communication among the members attending the meeting. The Secretary of the Board of Directors shall include in the minutes of the meetings of the Board of Directors held by such means, in addition to the directors physically attending or, where appropriate, represented by another director, those directors attending the meeting via telephone multiconference system, videoconference or via a similar system.*

*3. Any Director can appoint in writing another Director as proxy, each meeting requiring a special proxy, notifying the Chairman of the same in writing.*

*4. For resolutions to be passed, an absolute majority of votes in favour by the Directors attending the meeting shall be required. In the case of an equality of votes, the Chairman shall have a casting vote. The foregoing is understood without prejudice to the provisions of (...) Article 29.2 of these Articles of Association.*

*5. The Board's debates and resolutions shall be entered in a Minutes Book, each one of which shall be signed by the Chairman and the Secretary or by those who acted for them at the meeting to which the minutes refer. Copies and certificates of the Minutes shall be authorized and issued by the Secretary of the Board with the approval of the Chairman or by those who substituted them.*

*6. The Board shall have to decide which of its members shall make effective its own resolutions as well as those the General Meeting of Shareholders, when the latter has not expressed who shall execute them. Failing such a decision by the Board, the making effective of resolutions shall be the duty of the Chairman, or the acting Chairman at that time, according to the certification of the Secretary of the Board.*

*7. The Secretary and, where appropriate, the Deputy Secretary, even when they are not Directors, shall be empowered to convert the company's resolutions into public documents.*

The reference in Article 27.4 of the Articles of Association to Article 29.2 constitutes the only case, in addition to that provided in article 3.4 of the Board of Directors' Regulations, of enhanced majority for the adopting of decisions by the Board of Directors.

The aforementioned Article 29.2 of the Articles of Association provides that it shall be necessary that two-thirds of the members of the Board vote in favour in order to permanently delegate any power of the Board of Directors to the Executive Committee or to the CEO, if such post has been appointed, and for the appointment of the directors who have to fill such positions.

Article 3.4 of the Board of Directors' Regulations requires the resolution to be passed by a majority of two-thirds of the directors present for the modification of said Regulations.

For its part, Article 17 of the Board of Directors' Regulations provides:

*1. The Board of Directors shall ordinarily meet on a three-monthly basis and, at the initiative of the Chairman, whenever the same should consider it appropriate for the good working of the company. The Board of Directors must also meet when a meeting is requested by at least one-third of its members, in which case it shall be called by the Chairman to meet within the fifteen days following the request.*

*2. Notice of ordinary meetings shall be carried out by letter, fax, telegram or electronic mail, and shall be authorized by the signature of the Chairman or that of the Secretary or the Deputy Secretary by order of the Chairman. The notice shall be issued at least three days in advance.*

*The notice of the meeting shall always include the agenda of the meeting and shall be accompanied by the duly summarised and prepared relevant information.*

*3. The Chairman of the Board of Directors may call extraordinary meetings of the Board when in his opinion the circumstances so justify it, without the period of advance notice and the other requirements indicated in the previous section applying in such cases. Furthermore, the Board shall be considered validly constituted without the need for notice if, all its members being present or represented, these unanimously agree to the meeting taking place.*

4. *The Board may equally pass resolutions in writing without the need for a meeting, in accordance with the provisions of the Spanish Corporation Law. Furthermore, the Board may hold a meeting via videoconference or conference call, in order that one or more directors may attend the meeting through the aforementioned system. For this purpose, the notice for the meeting of the Board shall state not only where the meeting is physically to be held, where the Secretary of the Board must go to, but also the possibility that the meeting may be attended via conference call, videoconference or equivalent system, and it must indicate and have available the appropriate technical devices required for this purpose, which in any case must permit direct and simultaneous communication among the members attending the meeting. The Secretary of the Board shall record in the minutes of the meetings held by these means not only the members of the Board physically present or, where appropriate, represented by another director, but also the members attending the meeting via multiconference call, videoconference or similar system.*

5. *The Board shall draw up an annual calendar of its ordinary meetings.*

#### **B.1.18. Requirements in order to be appointed chairman:**

Among the modifications to the Articles of Association agreed by the General Meeting of Shareholders held on 18 July 2003 is that modification relating to the elimination of the requirement that the Chairman of the Board of Directors had to be appointed from among the members of the Board who have been directors for more than three years, except in the case that two-thirds of the Board vote in favour thereof. This modification, related to the modification referring to the suppression of the requirement of a qualified majority for the approval of certain resolutions, which until that time had been provided under article 22.6, meant the elimination of the only protective measures included in the Articles of Association.

#### **B.1.19. Casting vote of the chairman:**

The Chairman of the Board of Directors has a casting vote in the event of equality of votes between the directors attending the meeting. This is understood without prejudice to the provisions of article 29.2 of the Articles of Association, referred to in section B.1.17 above.

#### **B.1.20. Age limits for directors:**

Article 24.2 of the Board of Directors' Regulations state that the directors must place their office at the disposal of the Board of Directors and, if this should deem it appropriate, tender the relevant resignation:

*a) When they reach the age of 68. However, the directors who hold the office of Chief Executive Officer or Managing Director shall place their office at the disposal of the Board of Directors upon reaching the age of 65, being able to continue as ordinary members of the Board of Directors until the aforementioned age of 68. As an exception, the foregoing rules shall not apply in the case of the founding Chairman of the company, Amancio Ortega Gaona.*

#### **B.1.21. Limited term of office for the independent directors:**

Neither the Articles of Association nor the Board of Directors' Regulations establish a limited term of office for the independent directors.

**B.1.22. Formal procedures for the granting of proxies in the board of directors:**

Article 27.3 of the Articles of Association establish that any director can grant proxy to another director for his representation, such proxy being of a special nature for each meeting, communicating this in writing to the Chairman.

In line with this provision, article 19.1 of the Board of Directors' Regulations states that the Board meeting will be validly held when it is attended by at least half of its members, whether in person or by proxy, stating further that the directors shall do their best to attend the Board meetings and, when they cannot do so in person, they shall grant a proxy to another member of the Board giving instructions as to its use and communicating the same to the Chairman of the Board of Directors.

**B.1.23. Number of meetings held by the board of directors during the fiscal year and times the board has met without its Chairman being present:**

NUMBER OF BOARD MEETINGS	5
NUMBER OF BOARD MEETINGS WITHOUT THE PRESENCE OF THE CHAIRMAN	1

Number of meetings held over the fiscal year by the different committees of the board:

NUMBER OF MEETINGS OF THE EXECUTIVE COMMITTEE	0
NUMBER OF MEETINGS OF THE AUDIT COMMITTEE	6
NUMBER OF MEETINGS OF THE NOMINATION AND REMUNERATION COMMITTEE	4

**B.1.24. Prior certification of the individual and consolidated annual accounts:**

The individual and consolidated annual accounts that are presented in order to be prepared by the Board are previously certified by the Deputy Chairman of the Board and the CEO and by the Financial and Management Control Director.

**B.1.25. Mechanisms established by the board of directors to prevent the individual and consolidated accounts being presented to the General Meeting with qualifications in the auditors' report:**

The Audit and Control Committee, made up entirely of independent, non-executive directors, has meetings, without the presence of the management of the company, with the auditors of the individual and consolidated annual accounts in order to revise the company's annual accounts and the periodic financial information that the Board must provide to the markets and their supervisory bodies, overseeing compliance with the legal requirements and correct application of generally accepted accounting principles in the drawing up thereof. In such meetings, any disagreement or difference of opinion existing between the management of the company and the external auditors is put forward, so that the Board of Directors can take the necessary steps so that the audit reports are issued without qualifications.

During fiscal year 2003, the external auditors appeared at the meetings of the Audit and Control Committee on four occasions.

Furthermore, previously to the drafting of the annual or quarterly accounting statements, the management of the company also holds a meeting with the Audit and Control Committee and is subjected by the latter to suita-

ble questions as to the application of accounting principles, estimations made in the preparations of the financial statements, etc., subjects which are the object of discussion with the external auditors.

In this respect, Article 43.4 of the Board of Directors' Regulations states:

*The Board of Directors shall endeavour to definitively prepare the accounts in such a manner that they do not give rise to qualifications on the part of the auditor. Nonetheless, when the Board considers that it must maintain its opinion, it shall publicly explain the content and scope of the discrepancy.*

**B.1.26. Measures taken so that the information given to the market is transmitted equitably and symmetrically:**

Article 42.1 of the Board of Directors' Regulations lays down that the Board of Directors shall inform the public immediately about:

- a) Relevant information, which is capable of significantly affecting the formation of prices on the stock market.
- b) Relevant changes in the company's ownership structure, such as variations in significant holdings, syndication pacts and other forms of coalition, of which it has become aware.
- c) Substantial modifications of the company's rules of governance.
- d) The treasury stock policy that, where appropriate, the company proposes carrying out under the authorizations obtained in the General Meeting and their modifications.

For its part, article 42.2 of the aforementioned Regulations provides that the Board of Directors shall take the necessary steps to ensure that the half-yearly and quarterly financial information and any other financial information that prudence requires to be put at the disposal of the markets is drafted under the same principles, criteria and professional practices as those used for the annual accounts and that they are as reliable as these last. For this last purpose, the Audit and Control Committee shall review said information.

Furthermore, the company releases information to the market following the principles included in the Internal Regulations of Conduct, especially relating to the obligation that the information must be accurate, clear, quantified and complete, avoiding subjective assessments that lead or could lead to confusion or deceit.

Communications to the markets occur after having carried out the relevant filings, where appropriate, at the *CNMV* and, preferably, after the close of trading of the Spanish stock markets, in accordance with the Internal Regulations of Conduct, which states that the communication to the *CNMV* must be done previously to communication by any other medium and as soon as the relevant fact is known, the relevant decision has been taken or the relevant agreement or contract with third parties has been signed.

Likewise, the communications of relevant information are accessible through the governance and corporate information section on the company's web page as soon as they have been communicated to the *CNMV*.

The company releases the relevant information to the market simultaneously by the following means:

- Market Notes to a distribution list containing 1,100 entries with investors, analysts and the information media of the market. Inclusion in the distribution list is free.
- Press releases to some 300 media and press agencies.

After sending the Market Notes of Annual Results the company carries out webcast conference-calls, which are freely accessible.

After sending the Market Notes of Quarterly Results the company carries out freely accessible conference calls in which 125 institutions take part and which include a question and answer session.

On a six-monthly basis, the management team of the company does a roadshow in the main financial market-places.

#### **B.1.27. Status of the secretary of the board:**

The Secretary and Letrado Asesor [Legal Advisor] of the Board of Directors, Antonio Abril Abadin, holds the office of director and of member of the Executive Committee.

#### **B.1.28. Mechanisms established by the company to preserve the independence of the auditor, the financial analysts, investment banks and credit rating agencies:**

Article 43 of the Board of Directors' Regulations, under the heading "Relations with the auditors" states in paragraphs 1, 2 and 3:

*1. The relations of the Board with the external auditors of the company shall be channelled through the Audit and Control Committee.*

*2. The Audit and Control Committee shall abstain from proposing to the Board of Directors, and the latter shall abstain from putting forward to the General Meeting of Shareholders, the appointment as auditor of the company of any auditing firm which would be incompatible in accordance with auditing legislation as well as those audit firms where the fees that the company expects to pay them for all services in all areas are greater than five percent of the audit firm's total revenues during the last fiscal year.*

*3. The Board of Directors shall publicly disclose the whole of the fees that have been paid by the company to the audit firm for services other than auditing.*

The mechanisms established to preserve the independence of the external auditor are the following:

- It is incumbent on the Audit and Control Committee, made up exclusively of independent directors, to propose to the Board of Directors, in order to be studied by the General Meeting of Shareholders, the appointment of the auditors of the accounts. Furthermore, to propose to the Board of Directors their contractual conditions, the scope of their professional mandate and, where appropriate, the rescission or non—renewal of their appointment;

■ Among the functions of the aforementioned Committee is also that of liaising with the external auditors in order to receive information on those matters that could jeopardise their independence and on any other matter related to the carrying out of the accounts auditing process, as well as on those other communications envisaged by auditing legislation and auditing standards.

■ The external auditors consult periodically with said Committee, as is explained in point B.1.25 above.

■ The company reports in its consolidated annual report on those fees paid to its external auditors for each item that is other than the auditing of the financial statements.

As regards the mechanisms established to guarantee the independence of the financial analysts, the company, as has already been stated in section B.1.26. above, releases information to the market following the principles included in the Internal Regulations of Conduct, especially relating to the obligation that the information must be accurate, clear, quantified and complete, avoiding subjective assessments that lead or could lead to confusion or deceit.

The company has not contracted services from Investment Banks or Credit Rating Agencies during fiscal year 2003.

**B.1.29. Work for the company and/or its group other than that of auditing carried out by the auditing firm; amount of the fees received for said work and percentage that it represents of the fees charged to the company and/or its group:**

The auditing firm does carry out other work for the company and its group other than that of auditing.

	COMPANY	GROUP	TOTAL
Amount of other work apart from that of auditing ( <i>thousands of euros</i> )	268	20	288
Amount of work other than that of auditing / total amount charged by the auditing firm (in %)	27.6%	0.9%	9.2%

**B.1.30. Number of years that the current audit firm has uninterruptedly been auditing the annual accounts of the company and/or its group. Percentage that represents the number of years audited by the current audit firm over the number of years in which the annual accounts have been audited:**

	COMPANY	GROUP
Number of uninterrupted years	2	2

	COMPANY	GROUP
No of years audited by the current audit firm / no. of years that the company has been audited (in %)	10.5%	14.3%

**B.1.31. Stakes held by members of the board of directors of the company in the capital of entities that have the same or a similar or complementary type of activity as that which makes up the corporate object, both of the company and of its group, and that have been communicated to the company. Office and functions they perform in those companies:**

All the members of the Board of Directors have communicated to the company that they neither hold stakes in the capital of companies that have the same, similar or complementary type of activity as that making up the corporate object of the company and its group and nor do they hold offices or perform any functions in said entities.

### **B.1.32. Procedure whereby the directors can get external advice:**

The possibility that the directors can request external advice is expressly covered in the Board of Directors' Regulations, which in article 27 provides the following:

*1. In order to be aided in the performance of their duties, the non-executive directors may request that legal, accounting, financial or other experts be engaged at the company's expense.*

*The commissioned task must of necessity deal with particular problems of a certain importance and complexity which may arise in the performance of the office*

*2. The decision to engage external experts must be notified to the company Chairman and can be open to veto by the Board of Directors if it proves:*

*a) That it is not necessary for the proper performance of the duties entrusted to the non-executive directors; or*

*b) That the cost is not reasonable in view of the importance of the problem and of the assets and income of the company; or*

*c) That the technical assistance obtained may be adequately dispensed by in-house experts and technicians.*

### **B.1.33. Procedure to enable the directors to have the necessary information to prepare the meetings of the administrative bodies in a timely manner:**

Article 17.2 of the Board of Directors' Regulations, classified in chapter V ("Working of the Board"), after establishing that the notice for the ordinary meetings of said body shall be given at least three days in advance of the meeting, states that the notice shall always include the agenda of the meeting and shall be accompanied by the duly summarised and prepared relevant information.

This is complemented:

■ On the one hand, by article 26 of the aforementioned Regulations, which recognises the widest powers for the director to obtain information on any aspect of the company (and its subsidiary companies), to examine its books, registers, documents and other records of the company's operations and to inspect all its facilities, likewise establishing that the exercise of the powers of information shall be channelled through the Chairman, the Deputy Chairman or any of the Deputy Chairmen, where appropriate, or the Secretary of the Board of Directors, who will attend to the requests of the director by providing him with the information directly, offering appropriate interlocutors at the appropriate level in the organisation or establishing such measures so as to enable them to conduct the desired examinations and inspections *in situ*.

■ On the other hand, through the director's obligation to obtain information and prepare suitably for the Board meetings and for the subcommittees they belong to, as is referred to in article 29 of the Regulations.

### **B.1.34. Existence of liability insurance covering the directors of the company:**

There is a liability insurance policy covering the directors of the company.

## B.2. COMMITTEES OF THE BOARD OF DIRECTORS

### B.2.1. Administrative bodies:

NAME OF THE BODY	NO. OF MEMBERS	FUNCTIONS
Board of Directors	10	(1)
Executive Committee	7	(1)
CEO	1	(1)
Audit and Control Committee	3	(1)
Nomination and Remuneration Committee	3	(1)

(1) The functions of each of these are described in detail in this report.

### B.2.2. Committees of the board of directors and their members:

#### EXECUTIVE COMMITTEE

In accordance with article 29 of the Articles of Association, in March 1997 the Board of Directors established an Executive Committee which holds in delegation all the powers of the Board, except those that in cannot be delegated by law or by its Articles of Association and those others that are necessary for the responsible exercise of the general supervisory function that is incumbent on the Board.

Composition of the Executive Committee at 31 January 2004:

NAME	OFFICE
D. Amancio Ortega Gaona	Chairman
D. José María Castellano Ríos	Deputy Chairman
D. Juan Carlos Rodríguez Cebrián	Member
D. Antonio Abril Abadín	Member and Secretary
D. Carlos Espinosa de los Monteros Bernaldo de Quirós	Member
D. Francisco Luzón López	Member
D. Juan Manuel Urgoiti López de Ocaña	Member

#### AUDIT COMMITTEE

The Board of Directors' meeting on 20 March 2003 resolved to modify the name of the Audit and Compliance Committee in order to adapt it to the new nomenclature given by the Financial Law, going on to be called "The Audit and Control Committee".

The new revised text of the Board of Directors' Regulations, approved in its meeting on 20 March 2003, establishes that the Audit and Control Committee must be made up exclusively of independent directors. In order to comply with this provision, the executive director, José María Castellano Ríos, tendered his resignation as member of this Committee and the aforementioned Board of Directors resolved to cover the vacant position by appointing the independent director, Irene Miller, as member of the Audit and Control Committee.

The revised text of the Board of Directors' Regulations reinforces the authority of the Audit and Control Committee and introduces a mechanism to guarantee the independence of the Chairman of this body, by deciding that the Chairman shall be replaced every four years, being able to be re-elected only once a period of one year has elapsed since the date of that person's ceasing in the post.

Amongst the most significant basic responsibilities of the new responsibilities conferred upon it, it is worth mentioning the following:

- a) To report to the General Meeting on the matters that the shareholders raise in the General Meeting on areas falling under its authority.
- b) To supervise the Internal Audit Department of the company and its group, approving the budget of the Department, the Internal Audit Plan and supervising the internal, external, material and human resources of that Department.
- c) To prepare and submit to the Board of Directors for its approval an annual report on corporate governance.
- d) To prepare an annual report on its activities.

Composition of the Audit and Control Committee at 31 January 2004:

NAME	OFFICE
D. Juan Manuel Urgoiti López de Ocaña	Chairman
Dña. Irene Ruth Miller	Member
D. Francisco Luzón López	Member

Antonio Abril Abadín, director, General Counsel and Secretary of the Board acts as the Secretary-non-member of the Audit and Control Committee.

## NOMINATION AND REMUNERATION COMMITTEE

The new, revised text of the Board of Directors' Regulations establishes that the Nomination and Remuneration Committee must be made up exclusively of independent directors. In order to comply with this provision, Juan Carlos Rodríguez Cebrián, executive director of the company, tendered his resignation as a member of that Committee and on 20 March 2003 the Board of Directors resolved to cover the vacant position by appointing the independent director, Fred Horst Langhammer, as member of the Nomination and Remuneration Committee.

In order to reinforce the responsibilities of the Nomination and Remuneration Committee, the new Revised Text of the Board of Directors' Regulations has incorporated the following new functions:

- a) It shall report annually to the Board on its assessment of the performance of the senior management of the company, and especially of the CEO and his remuneration.
- b) It shall prepare the information to be included in the annual public information regarding the remuneration of the directors referred to in article 28.3.
- c) It shall report in relation to related-party transactions or those which involve the use of company assets.

d) It shall prepare and maintain up-to-date a contingency plan for the covering of vacancies in key posts in INDITEX.

Composition of the Nomination and Remuneration Committee at 31 January 2004:

NAME	OFFICE
D. Carlos Espinosa de los Monteros Bernaldo de Quirós	Chairman
D. Fred Horst Langhammer	Member
D. Francisco Luzón López	Member

Antonio Abril Abadín, director, General Counsel and Secretary of the Board acts as the Secretary-non-member of the Nomination and Remuneration Committee.

### **B.2.3. Organisational and working rules, and responsibilities, attributed to each of the committees of the board:**

#### *The Executive Committee*

The regulation of the Executive Committee is found in the Board of Directors' Regulations, article 13 thereof providing that this shall be made up of a number of directors being no less than three nor greater than seven.

The passing of the resolutions of appointment of the members of the Executive Committee will require at least two-thirds of the members of the Board to have voted in favour thereof.

The Chairman of the Board of Directors acts as Chairman of the Executive Committee and the Secretary of the Board, who may also be assisted by the Deputy Secretary, performs the duties of secretary.

The permanent delegation of powers by the Board of Directors to the Executive Committee shall require two-thirds of the members of the Board to vote in favour and may include, at the Board's discretion, all or a part of the powers of the Board itself. In any case, those powers that legally or institutionally cannot be delegated may not be delegated to the Executive Committee and nor may those others that are necessary for the responsible exercise of the general supervisory function that is incumbent on the Board.

The Executive Committee reports to the Board of Directors on the matters discussed and the decisions taken in its meetings.

#### *Audit and Control Committee*

The Audit and Control Committee shall be made up of a minimum of three and a maximum of five directors appointed by the Board itself, who must all be non-executive directors. For this purpose, the following shall be deemed executive directors: the CEO or CEOs and those who under whatever title hold executive or management responsibilities within the company or in any of the companies of its group (in the sense of Article 4 of the SSEA) and, in any case, those that have a contractual, mercantile or any other type of relationship with the company or any of the companies of its group that is different to their status as directors; in addition, those who, through the individual granting of powers or stable powers of attorney, have been granted the capacity to make decisions in relation to any part of the business of the company or of its group.

The Chairman of the Audit and Control Committee shall be elected for a period that does not exceed four years and must be replaced at the expiration of the aforementioned period. He may be re-elected once a period of one year has elapsed since the date of his ceasing in the post.

The Committee shall meet in ordinary meeting on a quarterly basis in order to revise the periodic financial information that has to be given to the Stock Market authorities, as well as the information that the Board of Directors has to approve and include in its annual public documentation. Furthermore, it shall meet each time its Chairman calls it to meet, who must do so whenever the Board or the Chairman thereof requests the issuing of a report or the adoption of proposals and, in any case, whenever appropriate for the successful performance of its functions.

The members of the management team or of the personnel of the company and its group shall be obliged to attend the meetings of the Committee and to provide help and access to the information at their disposal when the Committee so requests. Equally, the Committee may require the attendance at its meetings of the auditors of the accounts.

For the best performance of its functions, the Audit and Control Committee may obtain the advice of external experts.

#### *Nomination and Remuneration Committee*

The Nomination and Remuneration Committee shall be made up of a number of directors that is not less than three or greater than five and who must necessarily be independent directors. A Chairman will be appointed from among its members.

Requests for information addressed to the Nomination and Remuneration Committee shall be made by the Board of Directors or its Chairman. Likewise, the Committee must consider the suggestions presented to it by the Chairman, the members of the Board, management or the shareholders of the company.

The Nomination and Remuneration Committee shall meet each time that it is called to meet by its Chairman, who must do so each time the Board or its Chairman requests the issuing of a report or the adoption of proposals within the scope of its competences and, in any case, whenever is suitable for the successful performance of its functions. In any event, it shall meet once a year to prepare the information about the directors' remuneration that the Board has to approve and include in its annual public documentation.

#### **B.2.4. Advisory and consultative powers of each one of the committees and powers delegated to them:**

##### *The Executive Committee*

The Executive Committee, created from within the Board of Directors of the company, holds in delegation all the powers of the Board, apart from those that by law or by the Articles of Association cannot be delegated, and those others that are necessary for the responsible exercise of the general supervisory function that is incumbent on the Board.

The Executive Committee reports to the Board on the matters discussed and the decisions taken in its meetings, in such manner that the Board has complete knowledge of the decisions of the Executive Committee.

### *Audit and Control Committee*

The Audit and Control Committee is a consultative committee, with informational, advisory and proposal powers in the matters determined by the Board itself.

Without prejudice to other tasks that the Board assigns to it, the Audit and Control Committee will have the following basic responsibilities, which are:

- a)** To report to the General Meeting of Shareholders on those questions put forward by shareholders regarding matters within the scope of its competence.
- b)** To propose to the Board of Directors, in order to be studied by the General Meeting of Shareholders, the appointment of the auditors of the accounts. Furthermore, to propose to the Board of Directors their contractual conditions, the scope of their professional mandate and, where appropriate, the rescission or non—renewal of their appointment;
- c)** To supervise the Internal Audit Department of the company and its group, approving the budget of the Department, the Plan of Internal Audit, supervising the material and the necessary human resources, whether internal or external, of the Internal Audit Department for the performance of its work. To report on the appointment of the Internal Audit Department Director prior to the relevant report from the Nomination and Remuneration Committee.
- d)** To supervise the process of financial information and the internal control systems of the company, and to check the suitability and integrity of the same.
- e)** To liaise with the external auditors in order to receive information on those matters that could put at risk their independence and on any other matter related to the carrying out of the audit process, as well as on those other communications envisaged by auditing legislation and auditing standards.
- f)** To supervise the fulfilment of the auditing contract, endeavouring for the opinion about the annual accounts and the main contents of the auditor's report to be drawn up in a clear and precise manner, and to evaluate the results of each audit.
- g)** To revise the company's annual accounts and the periodic financial information that the Board must provide to the markets and to their supervisory bodies, overseeing compliance with legal requirements and correct application of generally accepted accounting principles in the drawing up thereof.
- h)** To inform the Board of Directors about any significant change in the accounting criteria and about risks arising from the balance sheet or from any other source.
- i)** To examine compliance with the Internal Regulations of Conduct, the Board of Directors' Regulations, the Code of Conduct and, in general, with the rules of governance of the company, and to make the necessary proposals for their improvement.
- j)** To receive information and, where appropriate, to issue reports on the disciplinary measures intended to be imposed on the members of the senior management team of the company.

**k)** To report during the first three months of the year and whenever the Board of Directors so requests on compliance with the Code of Conduct and to make proposals to the Board of Directors for the taking of steps and adoption of policies aimed at improving compliance with the Code.

**l)** To draw up and put forward to the Board of Directors an annual report on corporate governance for its approval.

**m)** To draw up an annual report on the activities of the Audit and Control Committee.

**n)** To supervise the functioning of the company's web page regarding the provision of information about corporate governance.

#### ***Nomination and Remuneration Committee***

The Nomination and Remuneration Committee is a consultative committee, with informational, advisory and proposal powers in the matters determined by the Board itself.

Without prejudice to other tasks that are assigned to it by the Board, the Committee shall have the following basic responsibilities:

**a)** To prepare and review the criteria that must be followed for the composition of the Board of Directors, and to select the candidates;

**b)** To advise on proposed nominations of directors prior to their nomination by the General Meeting of Shareholders or, where appropriate, by the Board of Directors by the co-optation procedure;

**c)** To advise on the nomination of internal positions (Chairman, Deputy Chairman or Chairmen, CEO, Secretary and Deputy Secretary) of the Board of Directors;

**d)** To propose to the Board the members that should form part of each of the Committees;

**e)** To prepare and review the criteria that must be followed for the selection of the senior management of the company and to report on the appointment or removal of the managers reporting directly to the Board of Directors, including the CEO.

**f)** To report annually to the Board on its assessment of the performance of the senior management of the company, and especially of the CEO and his remuneration;

**g)** To report on the systems and amount of the annual remuneration of directors and senior management and to prepare the information to be included in the annual public documentation about the remuneration of the directors referred to in article 28.3.

**h)** To advise on transactions that imply or may imply conflicts of interest, transactions with related parties or those transactions that imply the use of corporate assets and, in general, to report on the matters included in Chapter IX of the Board of Directors' Regulations.

i) To draw up and keep up-to-date a contingency plan to cover those vacancies in key positions within the company or its group.

**B.2.5. Rules governing the board's committees, place where they are available for consultation and modifications introduced during the year. Annual report on the activities of each committee:**

The rules governing the Audit and Control Committee and the Nomination and Remuneration Committee are contained in the Board of Directors' Regulations, and there are no specific individual regulations for each of them.

The complete text of the Board of Directors' Regulations is available for consultation on the corporate web page ([www.inditex.com](http://www.inditex.com)).

Throughout this report the modifications made in the Board of Directors' Regulations over the year have been examined in detail.

In compliance with the provisions of Art. 14.2.(m) of the Board of Directors' Regulations, the Audit and Control Committee prepared a report on the activities carried out by it during fiscal year 2003.

**B.2.6. Degree of delegation and autonomy of the executive committee in the performance of its functions, for the passing of resolutions about the administration and management of the company:**

In accordance with article 29 of the Articles of Association, in March 1997 the Board of Directors established an Executive Committee which holds in delegation all the powers of the Board, except those that cannot be delegated by law or by its Articles of Association, and those others that are necessary for the responsible exercise of the general supervisory function that is incumbent on the Board.

The Executive Committee reports to the Board on the matters discussed and the decisions taken in its meetings, in such manner that the Board has complete knowledge of the decisions of the Executive Committee.

**B.2.7. Composition of the executive committee in relation to types of directors:**

The Executive Committee is made up of four executive directors and three independent, non-executive directors, and thus its composition reflects a level of participation of the directors, according to their nature, which is different to that on the Board.

**B.2.8. Composition of the Nomination Committee in relation to types of directors:**

All the members of the Nomination and Remuneration Committee are independent, non-executive directors.

## C. RELATED-PARTY TRANSACTIONS

### C.1. Relevant transactions carried out which entail a transfer of resources or obligations between the company or entities of its group, and the significant shareholders of the company:

Below are shown the relevant transactions which have meant a transfer of resources or obligations in fiscal year 2003 between INDITEX or entities of the group and the significant shareholders of the company or persons or entities linked to them.

NAME OR COMPANY NAME OF THE SIGNIFICANT SHAREHOLDER	NAME OR COMPANY NAME OF THE COMPANY OR ENTITY OF ITS GROUP	NATURE OF THE RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT <i>(thousands of euros)</i>
D. Amancio Ortega Gaona	ZARA ITALIA S.R.L.	Contractual	Purchase of premises	17,432

### C.2. Relevant transactions carried out which entail a transfer of resources or obligations between the company or entities of its group, and the directors or managers of the company:

There have been no relevant transactions that have entailed a transfer of resources or obligations between INDITEX or entities of the group and the directors or managers of the company.

### C.3. Relevant transactions carried out with other companies belonging to the same group that are not eliminated in the process of preparing the consolidated financial statements and do not form part of the ordinary business of the company as regards its object and conditions:

There are no relevant transactions carried out with other companies of the group that do not mutually eliminate each other in the process of the drawing up of the consolidated financial statements and that are not part of the normal business of the company as regards its object and conditions.

### C.4. Conflicts of interest in which the directors of the company find themselves, according to the provisions of article 127 third part, of the SCL:

The company has no evidence that any of its directors is in a situation of conflict of interests, whether directly or indirectly, with the interests of the company.

### C.5. Mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group and its directors, managers or significant shareholders:

The Board of Directors' Regulations state in Article 32 ("Conflicts of Interest"):

*1. The director must abstain from attending and from participating in debates affecting matters in which they have a personal interest.*

*It is considered that directors also have a personal interest when the matter affects:*

*a) Their spouse, unless the operation only affects the personal property thereof*

*b) Their children who are minors and subject to patria potestas [parental authority].*

*c) The companies in which they occupy the post of director or senior manager or in which they hold a significant participation, understanding as such, for the case of companies listed on any official Spanish or foreign secondary market, those referred to in section 53 of the Spanish Act 24/1998, passed on 28 July – "The Stock Exchange Act", and its regulations, and for the case of unlisted national or foreign companies, any direct or indirect participation of over twenty (20) percent of their issued share capital.*

*d) Intermediaries, understanding as such those who act in their own name but on any of the aforementioned persons' account.*

*2. The director may not carry out professional or commercial transactions either directly or indirectly with the company unless he gives prior notice of the situation of conflict of interests and the Board, after a report from the Nomination and Remuneration Committee, approves the transaction. If it is a case of transactions within the ordinary course of company business and is of a habitual or recurrent nature, then general authorization of the line of operations and of its conditions of execution shall be sufficient.*

In addition, the Board's Regulations regulate the following situations which can give rise to conflicts of interest:

- The rendering of professional services in competing companies (article 31).
- The use of corporate assets (article 33).
- The use of non-public company information for private ends (article 34).
- The taking advantage of business opportunities of the company (article 35).
- The system relating to indirect operations (article 36).

Furthermore, article 37 of the Board of Directors' Regulations, under the heading "Duties of information of the director", provides that the director must inform the company, amongst other matters, of any fact or situation that could turn out to be relevant for his acting as a director of the company.

The rules of conduct established in the Board of Directors' Regulations for the directors shall apply, to the extent that they are compatible with their specific nature, to the senior management of the company, as is expressly provided in article 1 thereof.

In addition, the Internal Regulations of Conduct, in article 5 and after stating in the first paragraph that the general principles that must govern the actions of the persons subjected to conflicts of interest are those of independence, abstention and confidentiality, lay down the following:

#### *5.2. Declaration of conflict*

*The Affected Persons shall undertake in writing to act independently in their activities and to make known to the CCO [Code Compliance Office] using the standard model that is established for this purpose, those conflicts of interest to which they are subject due to their activities outside the Inditex group, their family relationships, their personal property, or for any other cause with:*

*a) Suppliers, external workshops not being part of the company and significant contractors for goods or services, or their Directors and general proxies.*

*b) Agents and franchisees of the Inditex group, or their Directors and general proxies.*

*c) People who are engaged in similar or analogous activities to those of the Inditex group and that compete with the Inditex group in the same markets.*

*d) External advisors and suppliers of professional services to the Inditex group.*

Among the powers granted to the Nomination and Remuneration Committee is that of reporting on the transactions that involve or could involve conflicts of interest, transactions with related parties or that involve the use of company assets and, in general, on the matters contemplated in chapter IX of the Board of Directors' Regulations (in which all the foregoing articles are included). In view of that report, it is incumbent on the Board of Directors to approve, where appropriate, the transaction.

## **D. SYSTEMS FOR CONTROL OF RISKS**

### **D.1. Risk policy of the company and/or of its group; risks covered by the system and justification for the adaptation of those systems to fit the profile of each type of risk:**

The main activity of the INDITEX group consists of the design, manufacture, supply, distribution and sale of clothing, accessories and items for the home through a network of stores, under eight different commercial formats that operate with certain independence in their business management (*Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Kiddy's Class and Zara Home*), and which were present in 48 countries at the close of fiscal year 2003.

The risk management policy of the INDITEX group can be summed up in four basic aspects:

- The risks to which the group is subjected must be measured objectively, evaluating the impact that would be made by the materialization of each of them and the existing level of preparation at each moment to prevent them happening or to minimize their impact.
- The risks identified must be managed actively, through the correct functioning of internal control systems that are adjusted to each type of risk.
- Although each risk is managed by the relevant business area, there must be an independent body for those same, and reporting to the highest executive body of the group, responsible for keeping the "map of risks" up-to-date and for forcing action on the areas in which the level of internal control does not match the importance of the risk.
- The evaluation of the risks must be carried out taking into account the interests of all the participants in the chain for the generation of value, that is, keeping the balance of all the stakeholders: shareholders, employees, customers, suppliers and civil Society in general.

In order to manage in an orderly and efficient manner the typical business risks of the INDITEX group, these have been classified into two large groups: **strategic risks and operative risks**.

In the following paragraphs, the denominators of each category of risks are described, and the detailed descriptions of these, together with the existing internal control systems, are dealt with in the following section of this report.

The **strategic risks** are contained in two categories:

- **Organisational risks:** Those whose appearance would have a negative effect on the business model and, therefore, on growth (adapting of new business lines, errors in decisions made on store openings due to location or cost, geographic diversity, disparity in applicable legislations, etc).
- **Commercial risks:** Those referring to commercial positioning, particularly as regards the balanced management of product offer (collections) and our customers' demands (tastes).

The **operational risks** match the main components of the "value chain" and have been classified in five large categories:

- **Production and supply.** Those relating to the management of the purchase of raw materials and the manufacturing process. The actions aimed at reducing the potential impacts of the risks identified in this area are designed to minimize supply costs and, at the same time, to maximise the availability of the final product at the right time for its distribution and to ensure fulfilment of Human Rights in the supply chain.
- **Distribution.** Those related with suitable management of the stock of final product: the logistics of the assignment of the product to the distribution chain and the storage of the finished product in the various stores. The actions aimed at reducing the potential impacts of risks identified in this area are designed to combine keeping a sufficient level of finished product in stock with having maximum ability to respond when faced with unexpected changes in demand.

■ **Financial Risks.** Those relating to the management and administration of its monetary and property assets, respectively. The actions aimed at reducing the potential impacts of the risks identified in this area are designed to reduce the loss of value arising out of unsuitable administration of said assets and those related to the opportunity costs stemming from inadequate financial management.

■ **Human Resources.** Those arising out of the consequences of lack of motivation and loyalty from our professionals: from the designer to the salesperson in the store. The actions aimed at reducing the potential impacts of the risks identified in this area are designed to reduce the risks arising out of negligence or bad faith in the actions of the Senior Management and those others related to excessive turnover of staff.

■ **Technical infrastructure.** Those related to the efficient handling of information, of computer, robotic and technical networks in general. The actions aimed at reducing the potential impacts of the risks identified in this area are designed to reduce the risks arising out of excessive complexity of the computer systems and of those other systems related to a possible stoppage of the computer systems.

## **D.2. Systems of control established to evaluate, mitigate or reduce the main risks to the company and its group:**

Below is a detailed description of the specific risks of the categories described in the previous section, together with their respective systems for evaluation and control, designed to reduce potential impacts:

### **A) Strategic Risks**

#### **1. Organisational Risks**

##### **1.1. Risks arising out of growth based on the opening of new stores**

INDITEX's model for growth is based on the constant search for new premises in shopping areas, applying the best practices of the organisation in the negotiation of contracts for leasing and purchasing premises.

This model means taking decisions to open in new markets and countries, the launch of new business lines, contributing to the diversification of INDITEX's risk among its multiple product lines (young female fashion, men's fashion and children's fashion, home products, footwear, perfumes, accessories, etc.) and working in geographic areas with unsynchronised economic cycles, with all the risks and uncertainties that this entails.

The decisions relating to new openings of stores, markets or business lines are subject to errors in sales forecasts, negative effects on existing stores, the effects of which last in time to the extent that non-recoverable investments are made and that there are temporary commitments to remain in leased premises.

In order to reduce our exposure to risk in this area, a detailed feasibility analysis of each new store, market or business line is carried out, which covers worse scenarios than those that are expected, and the fulfilment of the estimated figures is monitored. Moreover, INDITEX's business model is not only based on the management of new openings but also on improvements in the efficiency and effectiveness of the stores that are already open, such that this growth via expansion and diversification is complemented by the organic growth of existing stores and formats.

## **1.2. Legal risks arising out of the disparity in legislations between countries**

The diversity of the legal systems of the countries where INDITEX operates can entail implicit, potential non-compliance with laws, arising out of the complexity involved in simultaneously managing many different legal situations.

In order to reduce our exposure to risk in this area, the corporate Legal and Labour departments carry out the task of coordinating with the various managers and external legal advisors of each country or geographical area, in order to ensure appropriate compliance with the local legislation in force. In section D5 of this report, we identify the legislation that normally affects the Group in the countries where it operates.

Additionally, the Corporate Responsibility Department periodically carries out social audits with teams of independent professionals, who master the local language and labour and environmental legislation, to ensure appropriate respect for the requirements in labour issues considered in the Conventions of the International Labour Organisation (ILO) and for Human Rights contained in the main Conventions regulating this matter.

## **2. Commercial Risks**

### **2.1. Risks arising out of errors in recognising and assimilating fashions trends**

This is the main strategic risk that the INDITEX faces, as do all of its competitors in the fashion distribution market. Above production costs, lead time is the main factor to be considered in the development of the INDITEX business model.

It is the business model itself with which INDITEX was born which provides protection against the volatility implicit in the fashion business. INDITEX reduces its exposure to this type of risks through the vertical integration of its operations. Thus, it shortens lead times and, at the same time, provides the manufacturing system with a flexibility which allows it to reduce inventory volumes, conserving its ability to manoeuvre to introduce new products in the course of each campaign, such that it manages to adapt the offer to any unexpected variation in our customers' demands.

### **2.2. Risks derived from unsatisfactory shopping experiences**

In order to reduce exposure to this risk, INDITEX has designed tools such as: standardised "customer service" procedures; programs for the training and monitoring of store managers, sales assistants and cashiers; teams that periodically visit the stores, making sure that these transmit the image of each brand; channels of communication by telephone with its customers in order to ensure quality in sales and after-sales service, and the web pages of each different retail format.

## **B) Operative Risks**

### **3. Production Risks**

#### **3.1. Risk of the paralyzing of the manufacturing chain due to the shortage of supplies of stock**

Before making purchase orders and in order to prevent the risks arising out of the potential paralyzing of our different production chains due to lack of key raw materials for the production process, INDITEX carries out an analysis of each of our potential suppliers' ability to respond before making the aforementioned purchasing orders.

Moreover, a prudent level of diversification is maintained, such that no supplier of the group maintains a relative volume that endangers the continuity of the supply chain in the event of stoppage by such supplier.

### **3.2. Risk of excessive accumulation of stock due to over-ordering from suppliers in excess of needs**

The search for "economies of scale" in the processes of purchasing raw materials and finished product can lead to an over-accumulation of inventory volumes. This is why, before each campaign, the various Purchasing Departments establish the maximum level of initial stocks for each article through the purchase budget, the fulfilling of which is reviewed on a weekly basis, providing reasonable flexibility in the supply chain.

### **3.3. Risk of potential defects in the finished product**

In order to reduce certain potential risks deriving from the existence of defects in the manufacture of finished products, the group's own factories (Arteixo) manage their own quality control system.

As regards the quality control of those other products acquired from external manufacturers, this is carried out on a random basis when the merchandise arrives at the various warehouses or previously to its dispatch at origin, in the case of merchandise manufactured outside the European Union.

### **3.4. Risk of damage to the image of INDITEX due to serious breaches of the Code of Conduct for External Manufacturers and Workshops by our suppliers.**

As is detailed in the relevant chapter relating to the Social Dimension of the Sustainability Reports for 2003 and 2002, and in order to minimize the potential risks of damage to the image of INDITEX due to certain incorrect behaviour by any external workshops or manufacturers, INDITEX has developed a Social Audit Program, based on the external, independent verification of the extent to which the Code of Conduct for External Manufacturers and Workshops has been introduced and complied with. That program specifies the review procedures that guarantee that the information and evidence on minimum working conditions that all the External Manufacturers and Workshops must fulfil is obtained.

In order to provide the Program with transparency and independence, INDITEX carries out the aforementioned audits with teams of independent professionals who master the legislation and the language of the country.

## **4. Distribution Risks**

### **4.1. Shortage of supplies or accumulation of the final product in the stores**

The forecasts of the demand for each product are imperfect by nature and it is as bad to exceed oneself in the supply of a product, immobilising financial resources in stocks that depreciate rapidly, as it is not to have a large enough supply, generating frustrated shopping experiences that divert customers to competitors.

To minimize the consequences of this potential risk, INDITEX deals twice a week (in the case of Zara) with store orders made by the store managers and these orders are revised and adjusted before the merchandise is shipped. In the last few years, INDITEX has invested human and financial resources in improving the process of ordering and supply to stores, reducing the inefficiencies in all estimative processes. In addition and on a daily basis, information is produced on in-store stock levels and is checked by the product managers for each area.

#### **4.2. Delays or errors in the distribution of products from the warehouse to the stores**

The objective of maintaining a product range that meets the needs of customers requires a high turnover of finished product.

The management of this high turnover of stock lead to errors being caused in the logistics of assignation of product between the warehouse and the points of sale.

To reduce the exposure to this risk in this area, the computer systems of INDITEX register all the movements of merchandise, ensuring levels of suitable confidence in the product picking and, at the same time, providing complete information on the results of the deliveries.

#### **4.3. Physical concentration of stock in distribution centres**

In order to ensure suitable optimization of the logistics of INDITEX, the distribution of finished product is centralized independently in logistics centres located in each of the retail formats, except in the retail chain Zara, (approximately 70% of INDITEX's net sales) which has two distribution centres located in Arteixo and Zaragoza, thus facilitating the contingency plans in the event of potential accidents or the paralyzing for any reason of the distribution activities.

Although INDITEX actively manages actions to reduce exposure to this type of risks, maintaining rigorous safety measures in all its distribution centres, together with insurance policies which cover all the damage to stocks and the cost of opportunity or damages for loss of profit in the event of damage, there is a considerable volume of stock exposed to any accident or incalculable cause that could occur in said plants.

### **5. Financial Risks**

#### **5.1. Exposure to exchange risks**

Although the main part of the commercial operations is carried out in euros, the Financial Department systematically measures its exposure to risks related to unforeseen variations in exchange rates, taking out financial-type coverage and insurance in order to minimize the potential impact of depreciation and appreciation in the currencies other than the euro in which some sales and purchase of supplies are made. Moreover, the sales price policies in the countries which generate greater exposure to exchange risks are reviewed each campaign in order to cushion the effects of any depreciation.

#### **5.2. Inadequate management information**

Making decisions aimed at achieving corporate objectives requires the preparation and permanent updating of management information. Thus, the different departments of INDITEX, and very especially those of Management Control, are directly responsible for producing and overseeing the quality of said information, respectively.

In order to reduce its exposure to this type of risks, INDITEX periodically reviews the management information distributed to the various managers and officers and invests in business monitoring systems and budgeting systems, amongst others.

### 5.3. Sub-optimum property management

The administration of the more than 1,900 stores existing at 31 January 2004 exposes INDITEX to economic losses stemming from poor property management.

INDITEX reduces its exposure to this type of potential risks through the standardisation of its lease contracts, as well as by monitoring these and the observance of a contingency plan for its buildings, which includes actions such as taking out insurance, doing maintenance work on premises and complying with applicable municipal regulations.

In order to reduce exposure to this type of risks, each new opening is analysed by a committee in which the commercial, property and management control departments all participate. Furthermore, a study is made at least monthly of the stores opened in the last year, comparing their real performance with their estimated performance by analysing their viability.

## 6. Risks from Human and Technical Resources

### 6.1. Negligence or bad faith in the actions of senior management

The operational capacity of management requires the delegation of responsibilities to the senior management personnel, and therefore the possible negligence or bad faith of these means an inherent risk to a professionalized chain of command.

INDITEX actively manages exposure to this type of risks through an appointment policy that is supervised by the Nomination and Remuneration Committee, made up exclusively of independent directors. There are, in addition, Internal Regulations of Conduct and a body known as the Code Compliance Office, whose responsibilities include, in accordance with Art. 10.2.2 of the aforementioned Regulations, complying with and enforcing the rules of conduct of the Stock Markets and the rules of the Internal Regulations of Conduct themselves, their procedures and other current or future complementary rules.

### 6.2. Turnover of staff

The success of the development of INDITEX's business model depends directly on the motivation and loyalty of its professional staff—in other words, from the designer to the in-store sales assistant.

In order to minimize the risk of an excessive turnover of staff, the Human Resources Department has been developing an employee loyalty plan for its key employees, complementing this with a program for periodic, ongoing training of the workforce.

In this respect, Human Resources Management has developed programmes designed, on the one hand, to combine quality in professional performance of our employees with the satisfaction that each staff member obtains from their work position and, on the other, to facilitate job exchanges between those employees who wish to enrich their experience in the different areas of the organisation.

### 6.3. Excessive complexity or stoppage of the IT systems

The reliability of the IT systems is basic for our activities to operate suitably. The complexity of our operations, which stems from vertical integration and the geographic spread of our stores, factories and external workshops in more than 40 countries can cause excessive proliferation of systems, which would be uneconomical and contrary to the principle of simplicity in the handling of its operations.

To reduce exposure to this type of risks, the IT Department permanently monitors the streamlining and coherence of the systems, directed at minimizing the number of IT packages, maximising training of all the users involved in handling these and guaranteeing the security and stability required for uninterrupted development of our operations.

Moreover, there are emergency systems in the event of computer stoppage, with double equipment and data storage in a different location to the main Centre, which would reduce the consequences of a breakdown or stoppage to a margin of just a few hours.

#### **D.3. Circumstances that motivated the materialization of risks and the working of the established systems of control:**

All the risks described in the previous section are inherent in the business model and the retail distribution activity of INDITEX. Therefore, each and every one of them materializes to some degree throughout each financial year. It is precisely this occurrence which gives rise to the knowledge of risks and the evaluation of risks which the Management of the group makes.

However, very few of the risks described above occurred significantly in the organisation during the last fiscal year. The only risk that materialized to an important extent during 2003 was the exchange risk. The depreciation of various Latin-American currencies during 2002 and 2003, together with the strong appreciation of the euro against the dollar, reduced growth of accounting revenues and reduced the expected profit margins.

The systems for the measuring of risks and control and mitigation worked suitably: with the results of the first quarter of 2003 an informational annex was published explaining the expected impact of the evolution of foreign currencies, and the group's coverage policy, detailing the risks that could be covered and their impact on expected results.

The coverage taken out by the group worked by cushioning the part of the risks that could have been covered. The retail prices policy was reviewed before beginning each campaign, also allowing partial recovery in operating margins of the subsidiaries affected by the depreciations.

#### **D.4. Committee responsible for establishing and supervising these mechanisms of control and its functions:**

The search for excellence in management, together with the desire for the greatest transparency of information, has led INDITEX to create an Internal Audit department, which will carry out systematic assessment of the efficiency of the processes for identifying, controlling and managing risks. This department, created in fiscal 2003, will generate value through an active and independent activity of monitoring and advice at the disposal of the Board of Directors.

Thus, in accordance with the provisions of art. 14.2 c) of the Board of Directors' Regulations, it is incumbent on the Audit and Control Committee, made up exclusively of independent Directors of INDITEX, to supervise the Internal Audit department of the company and its group, approving its budget and the internal audit plan and supervising its internal and external material and human resources.

The aim, authority and responsibility of the activity of internal auditing will be formally defined in its own Rules, which will be approved by the Board, after a report from the Audit and Control Committee.

The activity of Internal Auditing will evaluate the exposure to risks related to processes and systems of financial information and internal control systems of INDITEX, mentioned in sections D.1. and D.2., checking the suitability and completeness of these, in line with the provisions of Art 14.2 d) of the Board of Directors' Regulations. In addition, it will evaluate and issue recommendations on those risks of whatever type identified as being relevant in the map of risks of INDITEX, in accordance with the priorities marked by its Audit and Control Committee.

The Internal Audit Department Director will present reports on a periodic basis on the activities of the department relating to the work plan and the results thereof.

The activity of the Internal Audit department will contribute to strengthening the Corporate Social Responsibility model of INDITEX, such that the provisions of its Code of Conduct are complied with, in the sense that *"...all the operations of INDITEX will be developed under an ethical and responsible perspective, all the people who maintain, directly or indirectly, any kind of labour, economic, social or industrial relationship with INDITEX will be treated in a fair and decent manner, and all the activities of INDITEX will be carried out in the manner that most respects the environment...."*

The work plan for internal auditing is based on an initial assessment of the risks which will be reviewed periodically by the Audit and Control Committee.

Through the creation and development of the Internal Audit and Corporate Social Responsibility Departments, INDITEX has met the current requirements governing management of corporate risks in Spain.

Finally, and on an annual basis, the Annual Corporate Governance Report will contain detailed information on the activities and results of the Internal Audit Department, so that the different stakeholders related to INDITEX (shareholders, employees, customers, suppliers and societies where we develop our manufacturing, distribution and/or marketing operations) can know in detail the measures that INDITEX is adopting to minimize the typical risks of the business.

#### **D.5. Processes of compliance with the various regulations that affect the company and its group.**

INDITEX operates stores in more than forty countries, and therefore it is obliged to comply with different legislations. Precisely, the diversity of legislations has been identified as one of the most important organisational risks which the group faces, as has been described in section D2.

The legislation that affects INDITEX in its operations can be classified in two categories:

■ **Legislation common to any company:**

**Mercantile legislation**, relating to company law, accounting standards, commercial contracts, etc.

**Labour legislation**, which regulates the relations with its workers as regards salaries, working hours, labour calendar, health and safety, etc.

**Securities market legislation**, which affects all listed companies.

**Tax legislation**, relating to the taxes that are charged on the group's activities and profits.

**Customs legislation**, referring to cross-border movements of merchandise.

■ **Specific legislation relating to INDITEX's activity:**

**Intellectual and industrial property legislation**, relating to rights over designs and trade marks.

**Trade legislation**, which regulates licences for store openings, business hours, sales periods and all that related to retail distribution.

**Competition law**, which specifically affects relations with franchisees and joint-venture companies.

**Property legislation**, which fundamentally affects the leases of commercial premises where the group's stores are located.

**Consumer legislation**, which affects the conditions that must be met by the product being sold in stores, especially in relation to the labelling and packaging.

In order to reduce exposure to the risk of non-compliance with the different legislations to which the group is subject, the corporate Legal and Labour departments carry out the task of coordination with the various members of management of each geographical area and external legal advisors of each country, in order to ensure appropriate compliance with the local legislation in force.

## E. GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders, duly convened and constituted in accordance with all legal formalities and those of the Articles of Association and its own Regulations, is the supreme and sovereign body of expression of the will of the company. Its resolutions are binding on all its shareholders, including those absent or dissenting shareholders, without prejudice to any remedies they may have at law.

In accordance with the provisions of the Articles of Association, the General Meeting is empowered to pass all manner of resolutions regarding the company, and the following powers, in particular, are reserved for it:

- a) To decide on the individual annual accounts of the company and, if any, on the consolidated accounts of the company and its group, as well as on the distribution of the profit.
- b) To appoint and dismiss the directors, as well as to confirm or revoke those provisional appointments of directors executed by the Board, and to review the company's management.
- c) To appoint the auditors of the accounts.
- d) To adopt resolutions on the issuance of bonds, the increase or reduction of capital, the reorganization, merger, split-off or dissolution of the company and, in general, any amendment to the company's Articles of Association.
- e) To authorize the Board of Directors to increase the company's capital, proceed to the issuance of bonds and other fixed yield securities.
- f) To approve the adoption of remuneration systems consisting of the granting of either shares or rights over shares, as well as of any other remuneration system linked to the value of the shares, regardless of who is the beneficiary of such remuneration systems.
- g) To approve the Regulations of the General Meeting of Shareholders and their subsequent amendments.
- h) To decide on the matters submitted to it by the Board of Directors.
- i) To empower the Board of Directors with the powers it deems suitable for unexpected situations.

The Board of Directors shall convene the Ordinary General Meeting necessarily once a year, within the first six months of the closing of each financial year in order to, at least, review the company's management, to approve, where appropriate, the accounts of the previous year and to decide upon the distribution of income or loss.

The Extraordinary General Meeting shall meet when the Board of Directors so resolves or when a number of shareholders which represent at least five percent of the share capital so request, expressing in the request the matters to be discussed. In this latter case, the General Meeting of Shareholders must be convened to meet within

the thirty days following the date in which the Board of Directors was required by means of a notary to convene the Meeting. The agenda of the meeting will necessarily include the matters that were the subject of the request.

In the resolutions to call the General Meeting, the Board of Directors shall require the presence of a Public Notary to take the minutes of the General Meeting.

Both the Ordinary and the Extraordinary General Meetings must be convened by the Board of Directors through notice published in the Official Gazette of the Mercantile Registry and in one of the newspapers with the highest circulation in the province where the company has its registered office, and at least fifteen days before the day appointed for the meeting or the greatest period that is required by law, where appropriate, due to the resolutions submitted for deliberation. The notice must state the day, time and place of the meeting, as well as the date on which, if appropriate, the General Meeting shall be held on second call, and there must be at least a 24-hour period between one call and the other. The notice shall likewise state, clearly and precisely, all the matters to be discussed therein.

No later than the date of publication, or in any event the business day that immediately follows, the notice of the meeting shall be sent by the company to the *CNMV*, and to the Governing Organisations of the Securities Markets where the company's shares are listed for its insertion in the relevant Listing Bulletins. The text of the notice shall also be accessible through the company's web page.

#### **E.1 Quorum for the holding of the general meeting established in the articles of association and differences between this and the minimum requirements foreseen in the Spanish Corporation Law (SCL):**

Both article 21.1 of the Articles of Association and Article 15 of the Regulations of the General Meeting provide that the General Meeting will be validly held on first call where shareholders who are present or represented by proxy represent at least fifty percent of the subscribed share capital with the right to vote. At second call, generally, the General Meeting shall be validly held regardless of the capital attending the same. However, if the Meeting is called to decide on an increase or a reduction in the share capital, the issue of debentures, the transformation of the company, the merger for the creation of a new company or via the taking-over of the company by another entity, its spin-off in whole or in part, the global assignment of assets and liabilities, the substitution of the company purpose as well as any other modification whatsoever of the Articles of Association, shall require, at second call, the attendance of twenty-five percent of the subscribed share capital with the right to vote.

Therefore, the only difference between said rules and the provisions of the SCL, both in general (Art. 102) and for special cases (Art. 103), consists of the quorum necessary for the holding of the General Meeting at first call in accordance with Art. 102 of the SCL, that the Articles of Association and the Regulations of the General Meeting of the company have made equal to the quorum for valid meetings on first call in accordance with article 103 of the SCL (shareholders who are present or represented by proxy represent at least fifty percent of the subscribed share capital with the right to vote).

This is expressly permitted by article 102 of the SCL itself, where, after laying down that the General Meeting of Shareholders shall be validly held on first call when the shareholders present or represented by proxy possess, at least, twenty-five per cent of the subscribed voting share capital, it goes on to provide that the articles of association can establish a higher quorum.

## **E.2. System for adoption of the resolutions of the company and differences between this and the system provided in the SCL:**

Once the question and answer session of the shareholders has ended and answers have been given according to the provisions of the Regulations of the General Meeting, the proposals regarding the items on the agenda or the proposals put forward by shareholders that are not legally required to be on the agenda shall be voted on.

If there were proposals regarding matters not included in the agenda and the Meeting can resolve on them, the Chairman shall decide the order in which they shall be put to vote. Otherwise, the voting of the proposals shall follow the agenda established to this effect.

It shall not be necessary for the Secretary to read in advance the unabridged version of the proposals of resolution, the text of which will have been given to the shareholders at the beginning of the meeting. In any case, the Secretary shall indicate to the members in attendance those proposals to be voted on at each time, and shall summarize the essential contents of those resolutions which have not been completely read out in accordance with that provided above. Whenever proposals concerning resolutions referring to the items on the agenda are submitted that are alternative to those presented by the Board of Directors, the proposal made by the Board shall be voted in first place and then, if appropriate, those proposed by other speakers in chronological order, in accordance with the time at which they were put forward.

Whenever the Meeting passes a proposed resolution, the remaining incompatible proposals relating to the same item on the agenda shall not be put to vote.

As a general rule, and without prejudice to the possibility, at the Chairman's discretion, of using other alternative systems when the circumstances so require, for the purposes of the voting on the proposed resolutions, the voting by the shareholders shall be determined in accordance with the following procedure:

**a)** When the voting is on proposed resolutions relating to items on the agenda, votes in favour shall be considered to be those of the shares present and represented, deducting those votes corresponding to the shares whose holders or proxy holders show that they vote against, in blank or abstain through the communication or expression of their vote or abstention to the Notary, for them to be recorded.

**b)** When the voting is on proposals of resolutions on matters not included in the agenda, votes against shall be considered to be those corresponding to all the shares present in person or by proxy, deducting the votes corresponding to shares whose holders or proxy holders state that they vote in favour, in blank or that they abstain, through the communication or expression of their vote or abstention to the Notary, for them to be recorded.

The resolutions shall be adopted by a majority of votes of the shares present or represented at the General Meeting, except in the event of legal provisions or provisions of the Articles of Association stating the contrary. In the event of a tie, the proposal shall be deemed to be rejected.

Once the voting of each proposal is completed under the terms of the foregoing paragraph, the Chairman shall proclaim the result of the voting stating whether the resolution has been passed or rejected.

The General Meeting of Shareholders of the company, held on 18 July 2003, resolved to suppress the requirement of a qualified majority (two-thirds of the share capital present in person or by proxy at the General Meeting).

ting) in order for the Meeting to be able to resolve on the increase or reduction in share capital, the issuing of bonds, the transformation of the company, merger by the creation of a new company or through its being taken over by another entity, total or partial split-off, global transfer of assets and liabilities, the replacement of the company purpose as well as any other modification of the Articles of Association.

Although the possibility of increasing the quorum and the majorities provided in the Law are expressly established in the SCL (article 103.3) the Board resolved to propose to the General Meeting said amendment as it considered that protective measures in the Articles of Association, while common in Spanish listed companies, would be contrary to the principle of transparency vis-à-vis the shareholders.

As was already stated in article B.1.19 above, this amendment, together with the elimination of the requirement that the Chairman of the Board of Directors must be appointed from among the members having seniority as director of more than three years, unless two-thirds of the Board voted in favour thereof, meant the elimination of the only protective measures included until that time in the Articles of Association.

Therefore, at the present time, the system of majorities for the passing of resolutions does not differ from the provisions of article 93.1 of the SCL.

### **E.3. Rights of the shareholders in relation to general meetings that are different to those established in the SCL.**

Within the rights for the shareholders recognised by article 48 of the SCL, the following can be listed in relation to the General Meetings: the right to attend and to vote in the general meetings and to challenge the resolutions of the company, and the right of information.

These rights are developed in articles 104 ("Right to attend the meeting"), 105 ("Limitations on the right to attend and vote"), 106 ("Proxies"), 112 ("Right to information") and 115 and following (relating to the challenging of resolutions) of the SCL.

The rights of the shareholders of INDITEX in relation to the general meetings are scrupulously respected by the company, in the terms established in the legislation in force, in the Articles of Association and the Regulations of the General Meeting of Shareholders.

In addition, the company has initiated a process of the review of its Articles of Association and the Regulations of the General Meeting, in order to incorporate into said internal rules the amendments introduced by the Transparency Law, which will be finalized in the Ordinary General Meeting of shareholders which will be held in July 2004.

#### Right to information of the shareholders

The Investor Relations Department and the Shareholders' Office at INDITEX are at the disposal of the shareholders to provide all the information on the General Meeting that they may need. Previously to the General Meeting, those shareholders who so request are sent a copy of the annual report and the relevant documentation relating to the items on the agenda.

In addition, the Regulations of the General Meeting of Shareholders lay down the information that the company shall make available to the shareholders, from the publication of the notice of the meeting, stating that the shareholders can receive such documents and information, for free and immediately, at the registered office, or can

request that such documentation and information be delivered or sent free of charge. Furthermore, such documents and information shall be incorporated into the company's web page.

Moreover, the company deals, as far as is possible, with the requests for information that are made by the shareholders in relation to the items on the agenda of the General Meeting, both before the General Meeting and during the meeting itself through the question and answer session, which all shareholders attending the meeting can participate in if they wish and whose participation is always answered.

Responses to significant questions, which are provided to the shareholders before the date of the meeting, are made known to all the shareholders attending the General Meeting at the beginning thereof, and are also posted on the company's web page.

#### Attendance of General Meetings. Right to Vote

The right to attend is dealt with in section E.9.

Each share entitles its holder to one vote.

#### Proxies at the General Meeting

Every shareholder who has the right to attend may confer his representation in the General Meeting by means of a proxy, even if he is not a shareholder. The proxy is always revocable.

### **E.4. Measures adopted to promote the participation of the shareholders in the general meetings.**

In addition to the publication of the announcements provided by Law and in the Articles of Association and of the making available to the shareholders in the registered office of the company, free of charge, of the information and the documentation related to the agenda of the meeting, the company published the notice of the General Meeting held on 18 July 2003 through the corporate web page, including all the relevant documentation to facilitate the assistance and the participation of the shareholders, including the agenda, the directors' reports and the remaining documentation in relation to the General Meeting that is required by Law.

Furthermore, the Regulations of the General Meeting of Shareholders, approved in the aforementioned meeting, incorporated new instruments directed at favouring the participation of the shareholders, in particular, through developing their rights of information, attendance and proxy.

In this respect, articles 9 and 10 of the Regulations of the General Meeting establish the following:

#### *Artículo 9. Information available as from the notice of the Meeting*

*As from the publication of the notice of the meeting, the company shall make the following information available to the shareholders*

*(a) The documents (such as, among others, the annual accounts, proposals for the distribution of the profit, management reports, auditing reports, directors' reports, proposals for resolutions, literal text of amendments to the Articles of Association, auditors and/or independent experts' reports, merger or split-off plans) which by law must compulsorily be provided in relation to the various items included on the agenda;*

*(b) The complete text of the proposed resolutions that the Board of Directors is submitting to the deliberation and approval of the General Meeting in relation to the different items on the agenda. As an exception, the Board of Directors may omit the publication of those proposals not required by the Law or the Articles of Association to be put at the shareholders' disposal as from the date of the calling of the General Meeting, whenever there are justified reasons that make previous publication not advisable.*

*(c) Practical data related to the General Meeting and the way in which the shareholders exercise their voting rights, such as, amongst others:*

*(i) Instructions on how to grant proxies*

*(ii) Information on the venue of the Meeting and how to get there.*

*(iii) Information, where appropriate, on the systems or procedures that may make it easier for the shareholders to follow the Meeting, such as simultaneous translation devices, broadcasting through audiovisual media, information available in foreign languages, etc..*

*(iv) Information on the shareholder service department (telephone number, e-mail address, offices) and their opening hours.*

*(d) Any other information deemed appropriate to facilitate the attendance and participation of the shareholders at the General Meeting.*

*The shareholders shall be able to get, freely and immediately, the documents and data referred to in the previous paragraphs at the registered office, as well as to request the free delivery or dispatch of such documents and data, in accordance with the provisions of the Law. Furthermore, such documents and data shall be incorporated into the company's web page.*

#### *Artículo 10. Right to information prior to the holding of the General Meeting*

*Every shareholder may request by writing to the Board of Directors prior to the General Meeting those reports or clarifications they may deem necessary regarding the items on the agenda or any other questions of interest, on which the Law has extended the right of information of the shareholder. Likewise, the shareholders may ask for any other information they may need about the General Meeting through the company's web page or through the shareholder service telephone line placed at the shareholders' disposal for such purpose, the number of which shall be given in a timely manner.*

*The Board of Directors is obliged to provide shareholders with the requested information or clarification, except whenever (i) the Chairman considers the publication of the data requested may have an adverse effect on the corporate interests (although this exemption cannot be alleged if the request is supported by shareholders representing at least twenty-five per cent of the share capital), (ii) the information or clarification requested does not refer to the items on the agenda and is not about those questions of interest referred to in the previous paragraph; (iii) the information or clarification requested is not reasonably necessary in order to form an opinion on those matters raised before the Meeting or, for whatever reason, it is considered abusive; or (iv) the legal provisions or regulations so provide.*

*The shareholders' requests for information shall be answered by the full Board of Directors itself, by any of its members, its Secretary, even if he is not a member of the Board, or by any other person expressly empowered by the Board of Directors for such purpose.*

*In the terms provided for by law, the requests for information shall be answered in writing and prior to the General Meeting, unless the characteristics of the required information make it unsuitable. Those requests for information that cannot be answered prior to said Meeting due to the proximity to the date of the Meeting, or those that are submitted during the same, shall be answered during the General Meeting, in accordance with the provisions of these Regulations or, where appropriate, in the shortest period of time as of the date on which the Meeting was held, always within the maximum term provided by the Law for this purpose.*

*Those answers given to significant questions that are provided to the shareholders prior to the date of the meeting, shall be made available to all the shareholders attending the meeting at the beginning of the same, and shall also be put on the company's web page.*

The right to information is supplemented by those of attendance and proxy, which are dealt with in section E.9 below.

#### **E.5. Chairmanship of the general meeting and measures adopted to ensure the independence and good working of the general meeting:**

Article 19 of the Regulations of the General Meeting of Shareholders, transforming into rules article 22 of the company's Articles of Association, provides that the General Meeting shall be chaired by the Chairman of the Board of Directors or, failing the Chairman, by the Deputy Chairman who replaces him in accordance with the Articles of Association, and failing the Chairman and Deputy Chairman, by the shareholder appointed by the General Meeting itself.

Once the board of the General Meeting has prepared the list of the attendees, expressing the nature or proxy of each one and the number of own shares or shares of the proxy-grantors attending the meeting, the Chairman shall declare the Meeting to be validly held; shall submit for its deliberation the business that has to be discussed according to the agenda or the previous agreement of the Universal Meetings; shall direct and order the debates signalling the turns for speaking and granting the floor to those shareholders who have made a written request to speak and then to those who have made a spoken request to speak, and may establish turns for speakers in favour and against the motion and may limit the number of those who may speak in favour or against or the time allowed for each speaker; shall declare the business to have been discussed sufficiently and shall order that the voting thereon proceed, proclaiming the result of the voting after such vote. All of these aspects, as well as others regarding the good working of the General Meeting, are developed in detail in the Regulations of the General Meeting of shareholders.

Lastly, and as a guarantee of the independence and good working of the General Meeting, mention must be made, on one hand, that the preparation of the list of those attending and the calculation of the quorum for the valid holding of the Meeting is entrusted to a company of repute in its sector of activity and which acts according to qualified professional practices; and, on the other hand, that the Board of Directors, in compliance with the provisions of article 7.2 of the Regulations of the General Meeting of Shareholders, requires the presence of a Notary to take the minutes of the Meeting.

#### E.6. Modifications introduced during the year in the regulations of the general meeting:

The General Meeting of Shareholders of the company, held on 18 July 2003, resolved to approve the Regulations of the General Meeting of Shareholders of INDITEX.

Those Regulations, which aim to regulate the working of the Meeting as to notices, preparation, information, attendance and exercise of voting rights, and to inform the shareholders of their rights and duties in relation to the same, intends to fulfil a triple purpose:

- To apply a criterion of transparency by making public, in application of the legal rules and the provisions of its Articles of Association, the procedures regarding the preparation and holding of the General Meetings.
- To make specific the manner in which the shareholders can exercise their voting rights on the occasion of the calling and holding of the General Meetings.
- To systematize the preparation process and the development of the General Meeting, in the certain knowledge that all this will be of benefit to the shareholders, this document becoming the obligatory work of reference for informed participation in the General Meetings.

#### E.7. Attendance figures for the general meetings held during the year to which this report refers:

DATE GENERAL MEETING	ATTENDANCE DATA			TOTAL
	% ATTENDANCE IN PERSON	% ATTENDANCE BY PROXY	% DISTANCE VOTING	
18-07-2003	7.75%	76.17%	0	83.92%

#### E.8. Resolutions passed in the general meetings held in the year to which this report refers and percentage of votes with which each resolution was passed:

The General Meeting of Shareholders of INDITEX, in its meeting held on 18 July 2003 and in accordance with the items on the agenda, passed the following resolutions, which are summarised below:

*FIRST.- Study and approval, where appropriate, of the annual accounts (Balance Sheet, Profit and Loss Account and Annual Report) and Management Report of INDITEX, S.A. and its consolidated group (INDITEX group), corresponding to fiscal year 2002, ended on 31 January 2003, and of the management of the company.*

The Annual Accounts (Annual Report, Balance Sheet and Profit and Loss Account) and the management report of INDITEX, S.A. were approved, as well as the Annual Accounts and the consolidated management report of the INDITEX group, corresponding to fiscal year 2002 (ended on 31 January 2003), drawn up by the Board of Directors at its meeting held on 20 March 2003 and signed by all the Directors.

Likewise, the management of the Board of Directors of INDITEX, S.A. for fiscal year 2002 was approved.

This resolution was approved by a majority of 99.67%, with 464 votes against and 1,674,197 abstentions.

**SECOND.- Distribution of the profit of the fiscal year and distribution of dividends.**

The Meeting approved the proposal of the distribution of the profit for the fiscal year 2002 (ended on 31 January 2003), in accordance with the previously approved Balance Sheet, for the amount of one hundred and eighty-seven million one hundred and sixty-four thousand Euros, to be distributed in the following manner:

To voluntary reserve	99,898
To dividends	87,266
<b>Total</b>	<b>187,164</b>

*(thousands of euros)*

It was resolved to reward the shares with the right to dividends with the gross amount of fourteen cents per share.

This resolution was approved by a majority of 99.99%, with 0 votes against and 120 abstentions.

**THIRD.- Ratification and appointment, where appropriate, of a Board member.**

The appointment of Mr. Antonio Abril Abadin, as member of the Board of Directors, which was resolved by that body at its meeting held on 12 December 2002, was approved and ratified and Mr. Abril Abadin was appointed to perform the office of Board member for a five-year period as envisaged in the Articles of Association, said period to be counted as from the date of the General Meeting of Shareholders.

This resolution was approved by a majority of 99.93%, with 0 votes against and 339,187 abstentions.

**FOURTH.- Amendment of the Articles of Association: Articles 15 (The General Meeting of Shareholders), 18 (Attendance at Meetings. Right to vote), 20 (Representation in the General Meeting), 22 (Procedure at General Meetings. Discussions. Passing of resolutions), 24 (Board of Directors), 25 (Number of Directors), 27 (Convening and quorum of Board Meetings. Passing of resolutions) and the introduction of a new precept to the Articles of Association, as article 30, in order to include the regulation of the Audit and Control Committee, re-numbering current articles 30 to 41 as articles 31 to 42.**

1) Articles 15.3, 18.1, 20.2, 22.1, 22.6, 24.2, 24.3, 25.3, 27.2 and 30 of the Articles of Association were amended.

2) It was resolved to proceed to renumber the articles, all of these maintaining their current wording, from the former article "30-Remuneration of Directors" to article "41 – Resolution of disputes", both inclusive.

This resolution was approved by a majority of 99.38%, with 0 votes against and 3,188,265 abstentions.

**FIFTH.- Approval, where appropriate, of the Regulations of the General Meeting of Shareholders.**

The Regulations of the General Meeting of Shareholders of INDITEX, S.A. were approved.

This resolution was passed by a majority of 99.38%, with 0 votes against and 3,188,265 abstentions.

***SIXTH.- Authorization of the Board of Directors for the derivative acquisition of own shares.***

The Board of Directors was authorised, under the terms shown in the answer in section A.9 above, to proceed to the derivative acquisition of its own shares, either directly or through any affiliated companies in which the company is the controlling company.

That authorization annulled the authorization approved by the General Meeting of Shareholders held on 19 July 2002.

This resolution was passed by a majority of 99.45%, with 0 votes against and 2,849,247 abstentions.

***SEVENTH.- Granting of powers for the implementation of resolutions.***

The Board of Directors, expressly empowering it to be substituted by the Executive Committee or by any of its members, was delegated the powers that are necessary for the correction, development and implementation of each of the resolutions approved in the General Meeting.

In particular, the Chairman of the Board, Amancio Ortega Gaona, the Deputy Chairman, José María Castellano Ríos and the Secretary of the Board, Antonio Abril Abadín were empowered so that, any of them, severally and without distinction, could carry out whatever actions are appropriate to implement the resolutions passed in the General Meeting in order to register these same in the Mercantile Registry and in any other Registries, without the need for a new resolution from the General Meeting.

This resolution was approved by a majority of 99.45%, with 0 votes against and 2,849,247 abstentions.

The full text of the resolutions has been available to the public since 18 July 2003 on the corporate web page ([www.inditex.com](http://www.inditex.com)) and through the web page of the CNMV.

**E.9. Number of shares needed to attend the general meeting and relevant restrictions laid down in the articles of association:**

In accordance with the Articles of Association and the Regulations of the General Meeting of Shareholders, to attend the General Meeting the shareholder must be the holder of at least fifty shares, that these are registered in his name in the book-entry register five days prior to the date on which the General Meeting is to be held, that he maintains at least the aforementioned number of shares until the holding of the Meeting and is up-to-date in the payments of capital calls.

The shareholders who hold a smaller number of shares may group them together and confer the representation thereof on one of the shareholders thus grouped or grant proxy for the General Meeting to another shareholder who is entitled to attend, grouping thus their shares with those of the entitled shareholder.

To exercise his right to attend, the shareholder must previously be authorized through the corresponding nominative card of attendance, on which the number and the class of the shares he holds is indicated, as well as the number of votes he can tender. The card shall be issued by the entity responsible for the accounting register to those holders of shares that prove that the shares were registered in the aforementioned register before the time limit prior to the meeting stated in the first paragraph of this subsection.

#### **E.10. Policies followed by the company in relation to proxies in the general meeting of shareholders:**

Article 12 of the Regulations of the General Meeting of Shareholders provides:

*Every shareholder who holds the right to attend may confer his representation in the General Meeting by means of a proxy, even if he is not a shareholder. The proxy shall be conferred in writing and exclusively for each Meeting. The mentioned requirement shall not apply when the proxy is the spouse, ancestor or descendant of the person represented, nor shall it apply when the proxy holds a general power of attorney granted in public document containing the authorization to manage all the personal assets that the represented person possesses in Spain.*

*The proxies shall be recorded in the list of attendees. Without prejudice to the foregoing, the Chairman of the Meeting may require the proxy to provide the documentation establishing the nature of his representation. The company shall keep a record in its files of the documents containing the proxies granted.*

*The proxies are always revocable. Personal attendance by the shareholder of the Meeting shall mean the revocation of the proxy.*

#### **E.11. Knowledge with regard to the policy of institutional investors as to participation or lack of participation in the company's decisions:**

The share capital of INDITEX is represented by the book-entry system and there is no shareholders' register. The company is not aware of the policy of the institutional shareholders with respect to participation in company decision-making as these are decisions that are not stated publicly.

#### **E.12. Address and means of access to the corporate governance content on the corporate web page:**

The address of the corporate web page of INDITEX is [www.inditex.com](http://www.inditex.com).

During fiscal 2003, a considerable revision of the web page of INDITEX was carried out as regards the information on corporate governance and other relevant information for shareholders and investors, creating new sections on these areas, restructuring the existing information until then and adding new contents.

Subsequent to the close of fiscal year 2003, a new revision of the INDITEX web page has been carried out, adapting its content and the time period of the communication of information to the requirements of Spanish Ministerial Order ECO/3722/2003, of 26 December, and, above all, to the requirements established in Circular 1/2004, of the CNMV.

The way to access the corporate governance contents is the following: once you are on the web page, choose the appropriate language (Spanish or English) and then the home page will appear. On this initial page, there is a menu with several areas, among them the one called "INFORMATION FOR SHAREHOLDERS AND INVESTORS". If you click on that heading, the two sections headed "INVESTOR RELATIONS" and "CORPORATE GOVERNANCE" will appear. It is also possible to download from this page many different documents of interest to shareholders and investors.

Within these last two sections of the web page, it is possible to have access to the following information and documentation:

- Rules and regulations: Articles of Association, the Regulations of the General Meeting of Shareholders and the Board of Directors' Regulations, the Internal Regulations of Conduct Regarding Transactions in Securities and the Code of Conduct.

- Shareholding structure: share capital, number of shares, significant holdings, information on treasury stock, etc.
- The General Meeting of Shareholders: notices of meeting, agendas of meetings, reports from the members of the Board, texts of the documents put forward to the General Meeting for their approval, presentations given, quorums, resolutions passed, votes cast and which way they were cast.
- Board of Directors: composition of the Board, of the Executive Committee, of the Audit and Control Committee and the Nomination and Remuneration Committee, with details of the different types of directors and the positions they hold in each of the committees or bodies; shares held in the company by the Board of Directors and remuneration policy.
- Other relevant information: communication channels with the company, investor diary, dividends, Annual Report, Corporate Governance and Sustainability Reports for the last few years; information filed with the CNMV (relevant facts and other communications), and financial information (annual and quarterly results, presentations and webcasts).

Furthermore, and in accordance with the provisions in Circular 1/2004 of the CNMV, certain corporate governance documents are directly accessible from the site map on the web site.

Finally, it must be pointed out that the information included on the web page, apart from certain documents, is given in two languages: Spanish and English.

## **F. DEGREE TO WHICH THE GOOD GOVERNANCE RECOMMENDATIONS HAVE BEEN FOLLOWED**

### **Degree of compliance of the company with respect to existing corporate governance recommendations:**

As has been set forth in this report, throughout fiscal year 2003, the General Meeting of Shareholders of the company has approved the Regulations of the General Meeting of Shareholders, whose aim is to regulate the working of the General Meeting as regards the notice of meetings, preparation, information, attendance, conduct and exercise of the voting rights and to inform the shareholders of their rights and duties in relation to the Meeting.

To this has been joined the introduction of significant amendments in the following corporate governance rules of the company:

- a) The Articles of Association, highlighting amongst the changes the elimination of protective measures and the rules regarding the Audit and Control Committee through the introduction of a new article.
- b) The Board of Directors' Regulations, highlighting amongst the changes: those whose purpose is to strengthen the functions of the Audit and Control Committee and the Nomination and Remuneration Committee, through the establishment of the requirement that these be made up solely of independent directors, the assignation of new tasks and the widening of its existing tasks; the reinforcement of the concept of the independent director

through the adopting of measures that guarantee the exercise of his functions with freedom and independence, such as the possibility of holding meetings between the independent directors independently of the other members of the Board, and the designation of a coordinator chosen from among the independent directors themselves; the introduction of the obligation of the Board of Directors to approve an annual corporate governance report simultaneously with the annual accounts of each fiscal year and to devote particular care to the preparation of the annual public documentation on the basis of the triple financial, social and environmental report, following the group's corporate responsibility model, and with the advice of the Social Advisory Board, the regulation of the corporate web page as an instrument to make available to the public all the information on corporate governance of the company, giving details of its contents, etc.

c) The Internal Regulations of Conduct, in which several concepts are redefined and several measures are introduced to reinforce the control over transactions that could be carried out in the future by the Affected Persons with securities of the company.

With these modifications and the changes made through them (amongst others, the change in the composition of the Audit and Control Committee and the composition of the Nomination and Remuneration Committee, so that they are only made up of independent, non-executive directors), the company has achieved almost total compliance with the recommendations on corporate governance included both in the report from the Olivencia Commission and in the Aldama Report.

The only recommendations that have not been adopted are: 1) that the Executive Committee show the same equilibrium in its composition as that of the Board of Directors between the different types of directors (an aspect of scarce relevance given that, first, the number of independent directors on the Executive Committee is already greater than that which would be required if the floating capital of the company was taken into account and, second, the low number of members of the Board of Directors has made it possible to not need to have a meeting of the Executive Committee during the fiscal year), and 2) that there be specific Rules and Regulations for the Audit and Control Committee and the Nomination and Remuneration Committee (although rules are included for the two Committees in the Board of Directors' Regulations). Consequently, these recommendations are not considered, in the particular case of INDITEX, to be relevant for optimum corporate governance.

## **G. OTHER INFORMATION OF INTEREST**

All the principles or relevant aspects relating to corporate governance practices applied by INDITEX have been covered in this Report.

The Company is not subject to any legislation other than the Spanish legislation in corporate governance matters.

As has already been stated, this Report contains all the relevant information with regard to corporate governance corresponding to fiscal year 2003, which began on 1 February 2003 and ended on 31 January 2004, except in those cases in which other dates of reference have been specifically given.

This Annual Corporate Governance Report was approved by the Board of Directors of the company in its meeting on 10 June 2004.

In that meeting of the Board of Directors, the following resolutions were passed, which affect the information provided in this Annual Corporate Governance Report:

**1)** The Board of Directors accepted the resignation tendered by ROSP CORUNNA, S.L., through its representative, Rosalía Mera Goyenechea, as a member of the Board of Directors of INDITEX, the Board recording in the minutes of the meeting its appreciation towards Rosalía Mera Goyenechea for the services rendered to the company and for her dedication in the performance of her work as member of the Board of Directors.

**2)** It passed a resolution to approve the proposal to partially modify the Revised Text of the Board of Directors, the new text of which will be sent to the CNMV pursuant to the provisions of article 115.2 of the SSEA.

The purpose of the modification is to adapt the internal rules on governance and on the working of the Board of Directors to the provisions of the Transparency Law and of the rules and regulations arising out of said law; to review and update the content of the Regulations in accordance with the most recent trends in the good governance of companies; to harmonize the terminology employed; and to correct some minor errors detected in its drafting.

**3)** It was likewise resolved, after a report from the Audit and Control Committee, to approve the proposal for the modification of the Articles of Association and the Regulations of the General Meeting of Shareholders, and to present those modifications for their approval by the General Meeting of Shareholders of the Company.

The modifications pursue two fundamental purposes: on the one hand, to complete the incorporation into the Articles of Association and Regulations of the General Meeting of the rules established by the Transparency Law, already included in the majority through the resolutions passed by the General Meeting held on 18 July 2003, as well as to introduce some additional provisions inspired by the recommendations on good governance; on the other hand, to improve some provisions of both rules, either taking into consideration the carrying out of transactions that could be of corporate interest or simply clarifying certain articles in order to provide greater correctness in drafting or security in interpretation.

Within the first group of reforms relating to full adaptation to the Transparency Law and to the inclusion of the recommendations on good governance, the following proposals deserve special mention: (i) the new regulations regarding the shareholders' right to information; (ii) the removal of the requirement of ownership of fifty shares in order to attend the General Meeting, and (iii) the regulation of the possibility for the shareholders to grant proxies and cast votes by postal or electronic means.

**4)** Likewise, pursuant to the provisions of the Articles of Association and the Board of Directors' Regulations, the Board resolved, after a report from the Nomination and Remuneration Committee, to increase the number of members of the Audit and Control Committee and the Nomination and Remuneration Committee from four to five members, respectively, nominating Carlos Espinosa de los Monteros Bernaldo de Quirós as a new member of the Audit and Control Committee and Irene Ruth Miller and Juan Manuel Urgoiti López de Ocaña as new members of the Nomination and Remuneration Committee. All the aforementioned are independent, non-executive directors.

None of the directors has voted against or has abstained from voting in relation to the approval of this Report.

The Corporate Governance  
Report 2003 is available  
in its totality at the  
following address:  
<http://www.inditex.com>

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